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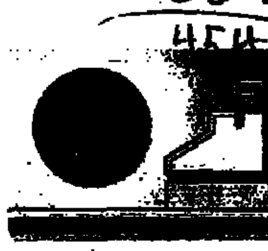

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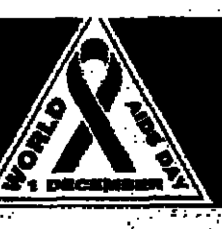

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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY DECEMBER 1 1994 — D8523A

Russia set to use force against rebel republic

Russia was on the threshold of military action last night against the breakaway republic of Chechnya as the deadline loomed for President Boris Yeltsin's ultimatum that the rebel leadership lay down its arms. The crisis, building since Chechnya's declaration of independence late in 1991, has been intensified by Mr Yeltsin's deadline of 6am today for compliance by the Chechens. Page 14

US drops supplies to rescued ship passengers

A US Navy helicopter delivered medicine and supplies to up to 1,000 passengers and crew rescued by a Panamanian tanker from the burning Italian cruise ship, Achille Lauro. A Briton and a German were believed to have died from heart attacks and eight other people were slightly injured. The 24,000-ton ship, which was hijacked by Palestinian terrorists in 1985, was last night engulfed in flames and listing between 30 and 40 degrees off the African coast.

London poised for talks with Sinn Féin

The British government reopened secret contacts with the IRA in the wake of the killing of a postal worker in Newry by republican gunmen. This emerged as the government looked poised to send a letter to Sinn Féin indicating its readiness to begin preliminary talks with the IRA's political wing before Christmas. Sinn Féin president Gerry Adams (above) said the government had said to expect a date shortly for exploratory talks. Page 14

Reformists join Mexican cabinet: Ernesto Zedillo, who today will be inaugurated as Mexico's president, named a series of reform-minded officials to his cabinet, indicating his commitment to economic and political change. Page 6

JP Morgan to lead Polish bond issue: US bank JP Morgan has won the highly-prized mandate to lead Poland's first sovereign bond issue since the country defaulted on its debts. Page 15

Opposition to stronger Europol police: German plans to strengthen Europol, the embryonic pan-European police agency to fight organised crime in the EU's border-free single market, ran into opposition from France, the UK and Spain. Page 14

New chief for BTR Nylex: UK-based industrial conglomerate BTR appointed Philip Aiken as chief executive of BTR Nylex, its Australian-based subsidiary. Page 15

...o director quits: Franz Humer, a director ...xo, Europe's biggest drugs company, resigned ...nly to take up a senior appointment in the international pharmaceutical industry. Page 9

Senate opens trade pact debate: The US Senate began debating the Uruguay Round trade pact, one day after the House of Representatives voted by a margin of almost two-to-one for passage of the accord. Page 7

US economy grows faster than expected: The US economy grew faster than previously reported in the third quarter as businesses invested more heavily in new equipment, the Commerce Department said. Page 6

Hoechst wants to double returns: German chemicals group Hoechst wants to double the return on capital from its core European industrial divisions, chairman Jürgen Dormann said. He reported pre-tax profits up 83 per cent to DM1.69bn ($1.1bn) in the nine months to September 30. Page 15; Lex, Page 14

Telmex to take cable TV stake: Teléfonos de México, the country's monopoly telephone company, is to take a 49 per cent stake in the cable television subsidiary of Televisa, the country's dominant media company, for $211m. Page 15

Statement pushes Argyll shares down: A downbeat trading statement sent shares in UK grocery retailer Argyll down 17p to 255p, the biggest fall of the day among FT-SE 100 stocks, in spite of a 4 per cent increase in interim pre-tax profits to £205.3m ($336.7m). Page 16; Lex, Page 14

Waddington passes Monopoly to Hasbro: Hasbro bought Waddington's games division for £50m ($82m) in cash, giving the biggest US toy and games group a monopoly on Monopoly, the world's best-selling board game. Page 16

■ STOCK MARKET INDICES		
FT-SE 100:	3,081.4	(+20.3)
Yield	4.18	
FT-SE Eurotrack 100	1,341.95	(+8.08)
FT-SE-A All-Share	1,528.12	(+0.5%)
Nikkei	19,075.62	(+16.49)
New York lunchtime:		
Dow Jones Ind Ave	3,752.35	(+13.80)
S&P Composite	455.79	(+0.62)
■ US LUNCHTIME RATES		
Federal Funds:	5⅝%	
3-mo Treas Bills: Yld	5.718%	
Long Bond	94⅔	
Yield	8.011%	
■ LONDON MONEY		
3-mo Interbank	6¼%	(6⅛%)
Liffe long gilt future:	Mar 102⅞	(Mar101⅜)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$17.04	(17.07)
■ GOLD		
New York Comex (Feb)	$384.5	(386.1)
London	$383.0	(383.35)

■ STERLING		
New York lunchtime:		
$	1.566	
London:		
$	1.5652	(1.5678)
DM	2.4578	(2.4475)
FFr	8.4299	(8.3992)
SFr	2.0793	(2.0703)
Y	154.872	(154.729)
£ Index	80.2	(80.1)
■ DOLLAR		
New York lunchtime:		
DM	1.57125	
FFr	5.3885	
SFr	1.329	
Y	98.945	
London:		
DM	1.5703	(1.5612)
FFr	5.386	(5.3575)
SFr	1.3285	(1.3206)
Y	98.95	(98.695)
$ Index	63.9	(62.8)
Tokyo close Y 98.98		

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y600	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Es225	UAE	Dh12.00

Brussels fines cement makers

Record penalties imposed after claims of secret deals to rig market for over 10 years

By Emma Tucker in Brussels and Andrew Taylor in London

The European Commission yesterday imposed record fines on 33 European cement producers accusing them of using secret agreements to rig the market for over 10 years.

Mr Karel Van Miert, competition commissioner, said the producers, eight national associations and the European Cement Association which masterminded the illegal operations, had three months to pay penalties totalling Ecu248m ($305m).

The biggest producers in Italy, France, Britain and Germany said last night that they would appeal against the decision to the European Court in Luxembourg. Most of the other companies are expected to follow suit.

Companies will have to pay the fines, or provide equivalent bank guarantees, pending the outcome of the appeal.

The stinging fines reflect the Commission's determination to clamp down on producers who infringe EU competition law. They were the third such penalties to be imposed on cartels so far this year.

"I hope now everyone has got the message," said Mr Van Miert. "There are still cartels out there that will do everything they can to stop us finding the evidence...but we will continue, and we will upgrade our means for tackling cartels."

The biggest fine of Ecu32.5m was imposed on Italcementi of Italy, Europe's biggest cement producer. The Swiss company, Holderbank, was fined Ecu5.3m. La Société des Ciments Français, controlled by Italcementi, was fined Ecu24.7m.

Italcementi said the Commission's charges were unfounded and that it would appeal, adding that the system of cement pricing in Italy meant that it would have been impossible for the company to part of a pan-European cartel.

Lafarge Coppée the largest French producer, which was fined Ecu22.8m, and Blue Circle, the largest British producer, fined Ecu15.8m, also intend to appeal, as does Heidelberger the largest German producer.

Blue Circle said it could take 18 months to two years before the appeal would be heard with judgment likely to take a further six months. Cement producers from all 12 member states of the EU were affected.

Earlier this year Mr Van Miert levied fines totalling Ecu100m on steel beam producers and a fine of Ecu132m on cartonboard producers.

The principle accusation against the cement companies and associations is that from 1983 they colluded to reduce price differences between EU member states plus Norway, Sweden and Switzerland so as to remove any temptation to export and to get those producers which did export to align their prices with those of local producers.

They thus blatantly breached the principles of the single market by maintaining artificial frontiers on the basis of domestic markets in an industry with an annual turnover of Ecu7bn.

The producers could not hope to deny their illegal activities, said the Commission. It alleged that at a meeting of the European group, the chairman stated that "needless to say there will be no minutes of this meeting".

The cartel was discovered after long investigations and surprise inspections carried out by Commission officials at the various head offices of the enterprises concerned.

The Commission said that although it did not detract from the seriousness of the infringements, it had taken into account the fact that EU companies had been faced – during the investigation – with a sudden surge in cement imports, just as they were struggling to emerge from recession.

The European Union is the world's largest cement producer with a production capacity of around 220m tonnes.

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Milan magistrates lose role in corruption inquiry

By Robert Graham in Rome

The crusading anti-corruption investigations of Milan's magistrates that have helped change the political face of Italy suffered a serious reverse yesterday in the country's appeal court.

The court switched to magistrates in neighbouring Brescia the investigations and subsequent trials of all those involved in Milan's inquiries into corruption in the Guardia di Finanza, the financial police. This has become one of the most sensitive investigations in the past six months and last week involved Mr Silvio Berlusconi, the prime minister, at the time he was running his Fininvest business empire.

The appeal court's full judgment has yet to be published and is likely to be challenged in the courts by the Milan judiciary. But the immediate effect will be to slow down investigations and trials – not least the questioning of Mr Berlusconi, which was postponed at the weekend and is due to take place this week. Brescia magistrates said yesterday they were hopelessly understaffed to cope with the extra workload.

Members of the government welcomed the decision as a sign that public concern that Milan magistrates were abusing their authority had finally been recognised. However, the opposition expressed grave concern over what it perceived as a deliberate move to undermine the principal judicial team in the "clean hands" anti-corruption drive.

The appeal court action stemmed from a case brought by General Giuseppe Cerciello, who has been in a military prison since July 9 on charges of allowing a well-organised system of bribes within the Guardia di Finanza while he was head of tax inspection. The investigation has prompted three members of the Guardia di Finanza to commit suicide, and the general was due to go to trial next Monday, along with 48 businessmen and policemen.

Gen Cerciello complained he

Continued on Page 14
Strike threat, Page 2

Hopes of an immediate ceasefire collapse as Boutros Ghali is snubbed at Sarajevo airport

Picture: Ashley Ashwood
US Republican senator Bob Dole, in London yesterday for a meeting with UK ministers, played down allied differences over Bosnia

Serbs refuse to talk peace with UN chief

By Laura Silber in Belgrade and Philip Stephens in London

Hopes of securing an immediate Bosnian ceasefire collapsed yesterday when the defiant Bosnian Serb leadership refused to meet Mr Boutros Boutros Ghali, the UN secretary-general, at the UN controlled airport in Sarajevo.

The meeting had been set to revive the peace process by ending the political isolation of the Bosnian Serbs. There were also hopes that it would revive the strained credibility of the UN as a mediator. However, Mr Boutros Ghali refused to hold talks with Serb leaders on their territory.

Instead, the UN leader met Mr Alija Izetbegovic, president of Bosnia, who reaffirmed his acceptance of an immediate three-month ceasefire. In an uncompromising mood, Mr Izetbegovic chastised Mr Boutros Ghali for refusing to use his authority to support the "legitimate government" of Bosnia.

"We are ready for negotiations when the Serb side says yes to the 'contact group' plan," he said, in reference to the five-nation plan to divide Bosnia roughly in half between the Moslem-Croat federation and the Bosnian Serbs.

The failure of Mr Boutros Ghali's Bosnian diplomacy came as Mr Robert Dole, the incoming US Senate majority leader, sought to play down the rift in transatlantic relations caused by the deepening crisis in Bosnia.

After talks in London with Mr John Major, the UK prime minister, Mr Dole said that he was concerned that the Nato alliance should not be damaged by the differences in approach of Washington and its European allies.

But British ministers indicated that Mr Major had told Mr Dole that his recent criticism of the peacekeeping role in Bosnia of France and the UK threatened last-ditch efforts to restore peace.

For his part Mr Dole continued to press the case for a lifting of the arms embargo on the Bosnian Moslems combined with Nato air strikes against the Serbs. That view was backed strongly by Baroness Thatcher, the former UK prime minister, who sharply criticised Mr Major's government for not taking stronger action against the Serbs.

Before leaving Sarajevo, Mr Boutros Ghali warned that the UN would pull out of Bosnia unless the warring parties agreed to a ceasefire and halted their harassment of the peacekeepers.

"Unprofor [UN peacekeepers in former Yugoslavia] is not here to become part of the conflict. It can only carry out its mandate if the two parties co-operate with it," he said. Otherwise, he warned, it would become "impossible" to convince the "increasingly critical" Security Council members to keep the UN forces in Bosnia.

Mr Jovan Zametica, adviser to Mr Radovan Karadzic, the Bosnian Serb leader, said he had refused to meet Mr Boutros Ghali at the airport because "the Serb side insisted on equal treatment for the warring parties".

If the secretary-general had met Serb leaders on their territory, it would have appeared to signal the UN's acceptance of current front lines.

Serbs control 70 per cent of Bosnia and have rejected a plan which requires them to scale back to 49 per cent.

Kohl keeps ranks with French......Page 2
Nato expansion......Page 12

Murdoch in new row over ownership of Fox network

By Patrick Harverson in New York

The rivalry between the established US television networks and Mr Rupert Murdoch's nine-year-old Fox network intensified yesterday when NBC filed a petition with federal regulators challenging Fox's claim that it is American-owned.

Under US broadcasting industry regulations, foreign interests are prohibited from owning more than 25 per cent of a US network. When Fox was established in 1985, the Australian-born Mr Murdoch satisfied this requirement by adopting American citizenship. He also put 76 per cent of Fox under the control of a company owned by himself and Mr Barry Diller, the entertainment industry executive who was then chief executive of Fox.

NBC argues that Fox's ownership has changed since 1985, and claims that only 1 per cent of the network's equity is now owned by Mr Murdoch, with the remainder controlled by News Corporation, Mr Murdoch's Australian media group.

NBC's petition asks the Federal Communications Commission to review Fox's ownership structure. Mr Richard Cotton, NBC's general counsel, said the commission must force Fox to abide by the laws restricting foreign ownership, or allow the other US networks to seek foreign investment, "We are saying to the FCC: either enforce the law or change it."

Fox said NBC's petition was an attempt to abuse commission processes to delay and impede competition. Mr Preston Padden, head of network distribution at Fox, said NBC's real complaint was that competition from Fox was costing NBC money.

Although by law the commission has to respond to NBC's filing, it is already conducting a review of Fox's ownership, launched this year at Fox's request after a complaint to the FCC by the National Association for the Advancement of Coloured People.

The civil rights group has long argued that foreign ownership of television stations denies broadcasting business. The first review is due to be published soon, and while analysts do not expect the commission to revoke Fox's broadcasting licence, it could fine the network and/or force Mr Murdoch to change the financial structure of his US broadcasting interests. There was no comment from Mr Murdoch yesterday, but he has said such a change could be made relatively simply if required.

NBC and the other established networks, ABC and CBS, have been increasingly frustrated by Fox's aggressive expansion and what NBC claims is preferential treatment of the network by the regulators. In the past year, Fox has embarked on an ambitious growth programme, luring affiliate local television stations away from other networks and outbidding rivals for sporting rights.

CONTENTS

LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Chancellor puts unity before his 'moral' position against blanket arms embargo

Germany agrees to toe line on Bosnia

By David Buchan and Michael Lindemann in Bonn

Chancellor Helmut Kohl assured France yesterday that he would continue to restrain his "moral" sympathy for the Bosnian Moslems in the interest of maintaining a show of European unity for the arms embargo and support for new peace efforts.

At a news conference concluding the Franco-German summit, Mr Kohl said it was vital to intensify the search for a political solution led by the international contact group, which includes Germany and France. Both countries reiterated their appeal to the United Nations and Nato to ensure respect of security zones around Bihac and elsewhere.

But Mr Kohl, who earlier this week voted with his Christian Democrat (CDU) party to approve a resolution urging a conditional lifting of the embargo, warned that time was running out for international diplomacy. "It is one minute to twelve," he said, adding that "what has happened in Bihac is really the last warning".

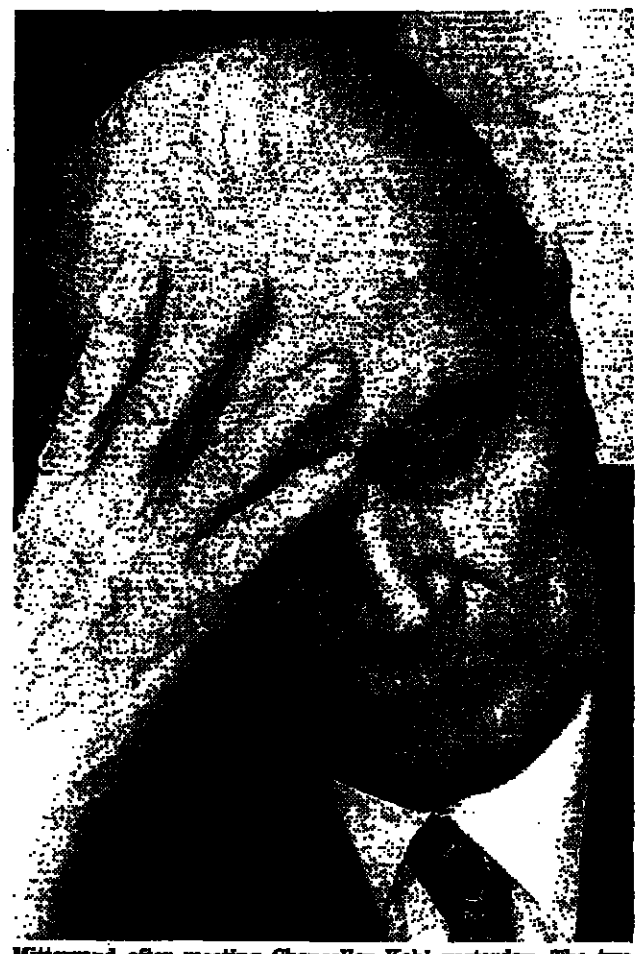
He appeared to indicate that, if diplomacy did not produce results soon, he would revert to what he described as his "moral" position against the blanket arms embargo in a war "in which one side [the Bosnian Moslems] is not armed and the other [the Serbs] is". At last year's European Union summit in Copenhagen he said he had undertaken to follow loyally the EU's support for the arms ban. But President François Mitterrand's spokesman said France understood "where the chancellor's heart really is on this matter".

Mr Kohl and Mr Klaus Kinkel, his foreign minister, explained to worried French leaders that the CDU resolution did not change the German government's position in favour of the embargo. The French side will also have been grateful for Mr Kohl's advice to his own countrymen not to lecture France about a conflict in which the lives of French military peacekeepers, but not German, were at stake. "Despite all the moral indignation, we must be sparing in our reproaches," he said.

During the overnight meeting the two sides also agreed to finalise details about their proposed co-operation on spy satellites. France is already involved in the Helios II project, a joint venture with Italy to launch an optical satellite, but is eager to have Germany on board. The two countries said that by March they would decide whether to go ahead with the Osiris radar satellite. The Germans want a closer look at the amount of money involved in both projects before making a decision.

Leaders of the two countries also decided for the moment to minimise their differences on the future course of the EU. Mr Edouard Balladur, French prime minister, said he had come out against a "federal" Europe because he did not want the EU debate in France to become mired in a sterile quarrel about federalism.

Mr Kohl agreed that such ideological debates should be avoided. He had been brought up like many in the Adenauer era to believe in the "united states of Europe", but had come to see that Europeans did not want to merge their states into another America.



Mitterrand after meeting Chancellor Kohl yesterday. The two agreed to minimise their differences on the future of the EU

Kohl invites eastern states to EU summit

By Lionel Barber in Brussels

Chancellor Helmut Kohl of Germany yesterday came off the fence and invited six leaders from central and eastern Europe to attend the closing session of next week's European summit in Essen.

The invitation – coupled with likely agreement on a more generous market access package for the east Europeans – raised hopes that the Essen summit would reinforce the German-led strategy to build a wider Europe.

Mr Kohl's decision to invite leaders of Poland, Hungary, the Czech republic, Slovakia, Bulgaria and Romania to Essen followed a "strategic bargain" between France and Germany aimed at balancing the priorities of eastern Europe and the Mediterranean, specifically North Africa, with regard to trade concessions and financial benefits from the Union.

Under an understanding reached at a meeting of EU foreign ministers in Brussels earlier this week, EU funds allocated to the Mediterranean over the next five years will rise but not quite keep pace with spending on eastern Europe. The Commission has bid for Ecu5.5bn and Ecu7bn respectively between 1995 and 1999, though ministers have yet to agree final totals.

Germany, which hands over the rotating presidency of the EU to France on January 1, has also won agreement for a progressive weakening of anti-dumping provisions against the six associate EU members. The EU concession is tied to east European price undertakings and steps to modify laws, standards, and competition policy to the single European market.

Separately, the European Commission agreed yesterday to submit proposals to ministers for phased modification of rules of origin (which affects eligibility for trade concessions) in order to stimulate trade and investment in eastern Europe – a move hitherto opposed by countries such as Portugal which fears its textile industry might be undermined by cheap east European labour. Details of the proposals are expected shortly, said a Commission official.

Mr Kohl, who had delayed issuing an invitation until he was sure of an internal EU consensus on Essen, said in Bonn yesterday that the central Europeans would be informed of the results of the Essen meeting. The message was that the EU was not a "closed shop", he said.

Some central Europeans had hoped to attend the summit in full so as to enhance the impression of being consulted about the outcome, but other EU member states are nervous about moves to concede membership through the back door.

Mr Kohl said: "We want to show that these countries will be welcome if they want to join [the EU] and if their domestic and economic situations permit that."

Verdict on the single market: could try harder

By Emma Tucker in Brussels

Member states of the European Union must match their political commitment to the single market with concrete action, by rapidly adopting outstanding legislation and correctly applying those measures already agreed.

That was the message from Mr Raniero Vanni D'Archirafi, commissioner responsible for the single market, presenting a report that will go to a heads of state meeting in Essen next week.

"We're telling the European Council that the news on the single market is good, but must be improved," said Mr Vanni D'Archirafi yesterday. "The effects of the legislation adopted are beginning to feed through to the market place but we cannot afford to rest on our laurels."

The Commission has recently stepped up pressure on member states to adopt all the legislation crucial for the free flow of goods, services, and capital within the Union's frontiers.

The focus is now switching to a concern that some harmonisation legislation is being badly transcribed on to national statute books, thereby distorting the single market. At a Council meeting in Brussels next week, this issue will be tackled. The Commission also plans once again to publish detailed lists of which member states are the worst offenders.

Yesterday's report emphasised that the completion of the single market was crucial to the political credibility of the Union. "The single market remains at the heart of our efforts to safeguard the competitiveness of our industry, to create jobs and to stimulate economic growth," it said.

Mr Vanni D'Archirafi had specific criticisms of the council of ministers.

So far this year it had failed to make significant progress in adopting the few, but important, legislative measures that were still before it. In particular, no progress had been made on the elimination of border controls on people.

Furthermore, in certain areas adopted measures were not being implemented in national legislation in accordance with the agreed timetables and their application in practice was inadequate.

The Commission said it was "vigorously pursuing legal proceedings" against member states that have fallen behind on implementing single market legislation.

It added: "There is now clear evidence that many benefits are already being widely felt from the 1992 legislative programme" (which set up the single market). It cited the elimination of border controls for goods, the opening up of public procurement markets, the removal of fiscal barriers and mutual recognition of diplomas as areas where progress had been marked.

Key issues to be tackled over the next few years included giving full freedom of movement of people and ensuring speedy and effective redress for consumers. The Commission also intended to press ahead with adoption of a definitive VAT regime. Progress also needed to be made on liberalising energy and telecommunications.

Also on the agenda is the need to create a coherent regulatory framework for the provision of new cross-border information services. Next week ministers will discuss Commission proposals to harmonise data protection regimes across the Union, a move which is being resisted by the UK.

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EUROPEAN NEWS DIGEST

Italian unions in peace talks

The Italian government was last night talking to union leaders to try to head off an eight-hour general strike tomorrow called to protest against pension cuts in the 1995 budget. Both sides appeared anxious to avoid the inevitable increase in social tension that would ensue from the general strike. The sheer length of the talks, which began at 10am and were still continuing late last night, confirmed the desire to reach agreement. Mr Clemente Mastella, the labour minister and chief proponent of a deal with the unions, threatened to resign if the talks failed. Mr Silvio Berlusconi, the prime minister, was mandated on Tuesday to negotiate with the unions on the basis of a broad-ranging document. This sought to address union concerns not only about cutting pension benefits but also on a wide range of issues including new incentives for job creation in the south and more help for research and development projects. In the run-up to yesterday's meeting the government had given conflicting signals over its willingness to compromise. But the bottom line, according to the treasury, would have to be the maintenance of the principal 1995 budget objectives in holding down the deficit to L138,000 ($85.7bn), equivalent to 8 per cent of GDP. *Robert Graham, Rome*

Tax drive underpins budget

Greece's Socialist government yesterday proposed a budget for 1995 that relies on a fresh crackdown against tax evasion in order to boost revenues. The budget provides for an 18.5 per cent increase in revenues to Dr7,400bn ($30.7bn) but does not impose any new taxes. The bulk of the revenue increase is projected to come from broadening Greece's tax base and curbing tax evasion among the country's 800,000 self-employed workers. However, any delay in setting up a new 1,000-member financial police force with powers to detain alleged tax evaders, or in upgrading computer systems at regional tax offices would have a serious impact on next year's revenue target.

With an early election possible next spring, the Socialists have decided against making spending cuts. The budget projects an overall rise in expenditure of 9.7 per cent to Dr9,925bn, including increased outlays on defence, health and education. However, wage restraints will continue, with rises for public sector workers being held below the inflation rate, projected to fall to 7.9 per cent by the end of 1995. The general government deficit is projected to drop to 9.8 per cent of gross domestic product from 12 per cent of GDP this year. *Kerin Hope, Athens*

Papandreou will not run

Greek prime minister Mr Andreas Papandreou has said he will not run for the presidency next spring. The ruling Panhellenic Socialist Movement must now find an alternative candidate. Parliament is due to vote for a new head of state by May when President Constantine Karamanlis, 87, is due to step down. But Pasok will be forced into an early general election unless it can find another 10 votes from other parties to reach the 180 needed to elect a president. The Socialists, together with a progressive faction in the centre-right opposition New Democracy party are keen to avoid derailing Greece's economic stabilisation programme by holding a fresh election. Names being floated of compromise candidates for president include Mr Christos Lambrakis, who runs Greece's leading media group, and Mr Odysseus Elytis, a Nobel prize-wining poet. *Kerin Hope, Athens*

Halt to political funding urged

The Patronat, France's employers' federation, yesterday called on French companies to suspend financial contributions to political parties in response to a wave of corruption investigations which have shaken the country's business community since the beginning of the year. Mr François Perigot, president of the employers' body, said that until the government had set new rules governing contributions to political parties it was best to halt payments. "The situation is too ambiguous. We must stop the funding," he said. Last month Lyonnaise des Eaux-Dumez announced it had halted political contributions. Other construction and utilities groups, the biggest campaign contributors, are also reviewing their positions.

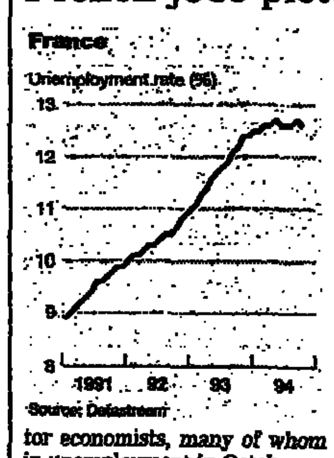
According to Mr Perigot, the suspension of payments should last as long as it takes to clarify existing regulations or enact new laws currently being considered by the government and by a committee of MPs. At present a 1990 law restricts to FFr500,000 ($93,450) the amount a company can pay annually to a political party. But a spate of corruption probes involving improper payments for public contracts has prompted calls by MPs for an end to direct campaign financing. In its report on corruption and business ethics, the Patronat proposed several further reforms, including increased transparency in the award of public contracts. It also advocated a strengthening of defences for companies, including greater judicial secrecy and a separation of the responsibility of directors and their companies. The chairman of a group should not be held legally responsible for malpractice in a subsidiary unless he was directly involved, the Patronat argues. *John Ridding, Paris*

Brussels' answer to slow payers

The European Commission yesterday proposed that member states introduce laws giving businesses the right to charge interest on late payment of trade debts. Representatives of small businesses believe the proposal will do much to banish the practice of late payments which strain the finances of Europe's small and medium-sized enterprises. Other recommendations for tackling the problem of late payments include a commitment to guarantee enterprises simple and cheap access to the courts and shortening the time in which government contracts are paid to a maximum of 60 days. The recommendations have yet to be presented to member states. Mr Raniero Vanni D'Archirafi, commissioner responsible for enterprise policy, said a wide consultation by the Commission had shown that late payments were at the root of serious problems for small enterprises struggling to balance their books, and that differences in national legislation constituted an obstacle to the smooth functioning of the single market. *Emma Tucker, Brussels*

ECONOMIC WATCH

French jobs picture brightens



France saw its biggest monthly fall in unemployment in six years in October, with the number declining by 17,700 to 3.33m. This follows sharp rises in August and September, which took the unemployment rate to a record 12.7 per cent. In October, the rate declined to 12.6 per cent. Government officials said the rise in unemployment was now being reversed with faster than expected economic recovery and the number of jobless could be cut by at least 150,000 next year. Private sector economists, many of whom had forecast a slight increase in unemployment in October, warned of the volatility of unemployment statistics and said an expected slowdown in economic growth since the autumn could limit improvement in the labour market. *John Ridding, Paris*

■ Spain's trade deficit in October was Pta224.7bn (£1.09bn), down from Pta315.3bn in September and Pta244.4bn in October 1993.

■ Turkey's GNP shrank by 8.6 per cent in the third quarter against the same 1993 period. GNP contracted by 10.6 per cent in the second quarter after rising 3.5 per cent in the first.

■ Finland's GDP rose 4.4 per cent year-on-year in September after a 4.0 per cent rise in August.

Spanish airline looks to Brussels to keep it aloft

Without aid, Iberia faces bankruptcy within three months, writes Tom Burns

If Iberia hurries, it will just have time to hand to Mr Marcelino Oreja its request for a fresh injection of large amounts of public money. The European Commission's outgoing transport commissioner, like most Spaniards, is a frequent user of the beleaguered national airline.

Any delay will mean that Iberia's bid for a Pta130bn ($1bn) aid package will land in the in-tray of Mr Neil Kinnock, the former UK Labour party leader, who replaces Mr Oreja in January.

A sympathetic hearing in Brussels is vital for Iberia. Unless the Commission authorises its urgent recapitalisation, the airline could be bankrupt in three months' time. But the issue is likely to prove even more controversial than Brussels' recent approval of a much larger subsidy – £2.4bn ($3.9bn) – to Air France, a move which is being challenged by other airlines in the European Court.

The first problem Iberia will face is that its request runs counter to the "one time, last time" policy on state aid that governs the Commission's efforts to liberalise the airline industry by 1997. Brussels authorised a Pta120bn capital injection into the Spanish airline just two years ago.

Iberia will accordingly plead that it faces "exceptional circumstances, unforeseen and external to the company" as the Commission's subsidy guidelines state. One such circumstance would be the three devaluations the peseta suffered between September 1992 and last June.

The second problem is that the effectiveness of a viability plan for the airline which will accompany the request is certain to be questioned by the Commission's more hawkish members. Mr Karel Van Miet, commissioner responsible for competition policy, is one such, and he has clashed recently with Mr Oreja over airline subsidies.

Details of the viability plan have still to be finalised but the signs are that it will fall far short of the management's original hopes. A wildcat strike on Monday, which paralysed air traffic in Spain and cost Iberia more than Pta1bn in lost revenue , forced a drastic revision of cost-cutting plans.

Bowing to union pressure, the airline agreed to lower wages by 8 per cent rather than 15, promised to make up back pay which it had said it could not honour, and agreed to stagger 3,500 redundancies, through incentives and early retirements, over three years instead of two.

Before Monday's strike, the carrier's management had said that failure to agree on a 15 per cent wage cut would mean the immediate firing of 5,000 employees, 20 per cent of its labour force, and the break up of the company in order to raise capital through disposals.

The climbdown is unlikely to impress those who believe that baling out Iberia, which has debts of Pta424bn, half of which are short term, is the equivalent of good money chasing bad.

Added to that, under the terms of the post-strike settlement, the leaders of the airline's two main unions, which organised Monday's strikes, will now join Iberia's four-man management committee.

The increased union power is an unsettling development for Iberia's dismal balance sheet, which is to a large extent the consequence of over-manning and low productivity.

Although salaries have been technically frozen over the past two years, the wages bill grew by nearly 7 per cent last year and could increase by 4 per cent this year. The company has 156 employees per aircraft; in comparison with competitor Air Europa's 46. Air Europa is one of two private sector domestic carriers which now compete with the state airline on domestic routes and have prompted a sharp reduction in fares.

Iberia's cost problems have been highlighted by ambitious expansion in Latin America that started in 1989, a year when the company last reported profits. That year profits tumbled to Pta6.2bn from a record Pta24.2bn.

Iberia's pilots union yesterday refused to accept an accord reached by management and representatives of the carrier's two largest unions. After a second day of talks, the union's chief negotiator said: "The only viability plan the company has put forward is one based solely on reducing salaries. This is important, but it will not save the company. The company has to be completely restructured."

Within three years, which coincided with the devasting impact of the Gulf War on the airline business, Iberia bought into Aerolineas Argentinas, Austral, the domestic Argentine carrier, Venezuela's Viasa, and Chile's Ladeco. The Spanish company's debt shot up from Pta147.6bn in 1989 to Pta371.5bn in 1991, a year when it posted losses of Pta35.8bn and when it began to request the Pta120bn injection of state aid that was finally authorised by Brussels in 1992.

Last March, as part of a complex rescue plan for Aerolineas that was agreed with the Argentine government, Iberia raised its stake in the airline from 30 per cent to 83.4 per cent in a $400m debt-for-equity swap. Iberia also chipped in a further $100m that had been put aside for emergencies when it first bought into Aerolineas.

It was ironic that just as the Spanish company was pouring money into the Argentine airline earlier this year, lack of traffic was forcing it to close a hub in Miami which it had begun operating in 1991. The hub was part of Iberia's grand strategy to become the European link with Central and South America.

The closure of Miami has been planned by Mr Juan Sáez who became managing director of Iberia in a boardroom shake-up that brought in as chairman Mr Javier Salas, who is president of INI, the public-sector holding that owns the airline.

The outgoing chairman, Mr Miguel Aguiló, was blamed for last year's losses of Pta69.7bn, which were double those of 1992. Mr Aguiló, who became chairman in 1990, had inherited the Aerolineas Argentinas project from his predecessor, Mr Narcis Andreu, who left in 1990 at the beginning of a dizzying series of top management changes at Iberia.

Mr Sáez, together with Mr Salas, will now be responsible for drawing up the viability plan that will be taken to Brussels by Mr Juan Manuel Eguiagaray, the industry minister, perhaps as early as next week.

Yesterday, Mr Eguiagaray said he was "absolutely convinced" that the Commission would approve an aid package. He is probably reassured by the precedent set by Air France and by the presence in Brussels, at least for the next two months, of Mr Oreja.

Editorial Comment, Page 13

Court orders attempt to rescue populist politician's companies

Tapie gains a breathing space

By John Ridding in Paris

Mr Bernard Tapie, the French populist politician and tycoon, yesterday won a reprieve in his struggle to secure his financial and political future. A Paris commercial court ruled that his remaining business interests should be placed in receivership rather than be wound up.

The ruling, which freezes Mr Tapie's assets for six months and allows a court-appointed administrator to try to rescue his businesses, removes the prospect of imminent bankruptcy for the left-wing French deputy and European MP.

Under French law, bankruptcy would have rendered him ineligible for elected public office for five years, dashing his political career.

Mr Tapie has set his sights on becoming mayor of Marseilles in elections due in the middle of next year. He has also indicated that he might run in the presidential elections next spring following the strong showing of his Radical Energy list in last June's European elections.

The pro-European list, which called for radical measures to reduce unemployment, won 12 per cent of the vote.

Mr Tapie welcomed the court's decision. "I am very satisfied because my companies and their employees will survive," he said. He accused his creditors of seeking to end his political career.

Yesterday's ruling was the most important of a series of legal disputes which have dogged the flamboyant French deputy. He faces a spate of suits from creditors, in particular Crédit Lyonnais, the loss-making state-owned bank which funded his rapid business expansion in the 1980s and which is now attempting to recoup loans estimated at FFr1.2bn ($225m).

The ruling was greeted with some surprise in France, where Mr Tapie divides observers between admiration for his charisma and anti-establishment credentials and resentment concerning his rise to prominence, partly through the financing of his businesses by state institutions.

It comes as a blow to Crédit Lyonnais which believes that some of the businesses should be placed into liquidation.

Mr Tapie's legal battles are far from over, however. The Paris Tribunal de Commerce called for a hearing on December 14 to determine whether to uphold his claim that Crédit Lyonnais is partly responsible for the management of his companies.

Yesterday, a separate court rejected Mr Tapie's appeal against a fine of FFr1m for giving false information about the state of one of his companies.

The future of Mr Tapie's indebted and loss-making businesses is also insecure. Should the court administrators fail to rescue or find buyers for the various businesses they will be liquidated.

Financière Immobilière Bernard Tapie, which owns his 17th century mansion and his FFr74m luxury yacht are seen as vulnerable. The other businesses placed in receivership include Groupe Bernard Tapie, which controls three weighing-machine businesses and a chain of health food stores.

■ Mr Bernard Tapie (right): ruling removes the imminent prospect of bankruptcy, which would have dashed his political ambitions

Telecom Italia seeks to pay government less

By Andrew Hill in Milan

Telecom Italia, Italy's state-controlled telecommunications company, wants to reduce the fee it pays to the government, to offset the consequences of increased competition in the lucrative area of mobile phone services.

Late on Tuesday, the government gave the formal go-ahead to a consortium headed by Olivetti, the Italian computer company, to build the country's second pan-European digital mobile phone network.

The Omnitel-Pronto Italia consortium won the licence on the eve of the March general election, but it has taken until now for the new administration to agree the detail of the deal.

Telecom Italia is demanding that the government liberalise tariffs on the existing analogue network, which already has 2m subscribers. The company has a monopoly over this network, but claims that if prices are regulated it will be at a disadvantage when competing with Omnitel's more sophisticated GSM network.

Mr Giuseppe Tatarella, telecoms minister, has agreed that the relevant ministries will discuss the problem, probably next week. But if Telecom Italia persists, it is likely to aggravate its already tense relationship with Omnitel.

Telecom Italia also wants to pay a smaller fee for having a monopoly over other phone services. It would like the fee to come down from 3.5 per cent of turnover to 0.5 per cent, over two to three years, and says the previous government had agreed to reduce the fee.

Yesterday, only Omnitel signed the joint convention which will regulate GSM competition. In principle, this means Telecom Italia can still threaten to withhold its signature if it fails to win concessions from the government.

The issue is particularly sensitive because the consortium defeated in the bid for the new GSM licence included Fininvest, the media company owned by Mr Silvio Berlusconi, now prime minister. Mr Berlusconi deliberately took no part in Tuesday's cabinet discussion of the licence.

Olivetti and its partners, which include Bell Atlantic of the US, will have to invest heavily over the next few years to build a new GSM network. In the past two years, Telecom Italia has built a minimal GSM network, but has been prevented from marketing the service actively pending the arrival of a second operator.

NEWS: INTERNATIONAL

Stock market bar to China pension funds

By Tony Walker in Beijing

China has banned pension schemes from investing in the country's volatile stock markets, insisting that funds go into approved government securities.

A finance ministry decree stated that pension funds must not be used to purchase stock or for any kind of direct investment. It stipulated that 80 per cent should be spent on treasury bonds, with the balance held in bank deposits.

"These funds, an important ingredient of a fledgling social security network, should be risk-free and not be used for other purposes," said a joint circular issued by the ministries of finance and labour earlier this week.

China has recently accelerated steps towards a national social security net for urban dwellers. A national superannuation scheme is part of this plan.

The decree follows speculation that the authorities were about to relax restrictions on pension fund investment in the country's stock market.

But Beijing has clearly decided that for the time being China's stock markets are too risky. The markets have followed a rollercoaster ride this year.

The Shanghai composite index peaked at 1,052.94 on September 13, up from the year's low of 325.89 on July 25. The composite index stood yesterday at 683.59, down about 40 per cent since September.

The finance ministry directive also laid down rules for the investment of unemployment insurance funds and health funds, insisting that the bulk of these be used to purchase government securities.

China is becoming more dependent on treasury bonds to finance its budget deficit and huge infrastructure requirements. More than Yn100bn (£7.5bn) of treasury bonds were issued this year and there are plans for a similar amount next year.

Stock market officials have been calling for the establishment of Chinese unit trusts, but the government has been unwilling to approve the move because of concerns about its ability to regulate them.

Official attitudes to the markets range from the sceptical to the downright negative. Mr Lu Heping, deputy director of the finance ministry department of social security, reflected these negative views in remarks published yesterday by China Daily.

"The high-risk stock market is by no means the right investment option for the funds, especially with the absence of a sound legal framework," Mr Lu said. "The safest instrument for the funds is state bonds, which have an interest rate about 2 percentage points higher than bank deposits."

The finance ministry decree follows reports of misuse of pension fund money. The circular said that "misused money" should be retrieved within six months.

Funds are believed to have been channelled into the stock market and real estate projects, some of which have not been successful.

Queensland drought fails to halt biggest output increase since 1985

Australian growth surges to 6.4%

By Nikki Tait in Sydney

Australia's annual growth rate surged to 6.4 per cent during the September quarter, the highest level since 1985. This is also the strongest year-on-year increase in gross domestic product being reported by any Organisation for Economic Co-operation and Development country.

The figure would have been even higher, at around 7.3 per cent, had it not been for the impact of the severe drought on the farm sector in News South Wales and Queensland, and was far above both market and official government forecasts. The market had anticipated a rate of about 5.5 per cent, while budget forecasts had assumed the Australian economy would grow at about 4.5 per cent during the 1994-95 financial year.

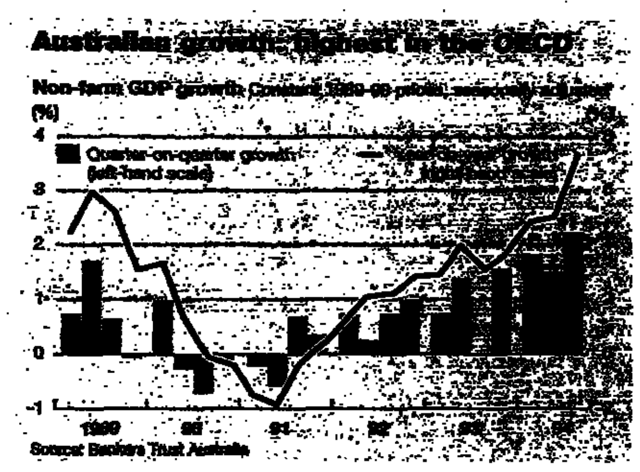
With the data revealing that growth in gross domestic product was fuelled in large part by a surge in private consumption spending, local economists quickly concluded that a rise in interest rates before Christmas was now a strong possibility. Earlier in the week, statistical data showing a better performance by Australian exporters in October and a decline in the monthly trade deficit had appeared to make this less likely.

The Australian dollar rose sharply on the GDP figures, hitting a 31-month high at one stage. By late afternoon, it had gained almost half a cent and was trading at about US$0.768.

In Canberra Mr Ralph Willis, federal treasurer, said the government expected the growth rate to slow with and recent interest rate increases moderating demand. He did not rule out a mini-budget in the new year.

Mr Willis said the current level of growth might prompt the government to consider adjustments to fiscal policy.

Mr Willis' softening of the government's stance comes less than 24 hours after Mr Bernie Fraser, governor of the Reserve Bank of Australia, urged it to consider using fiscal policy to rein in the budget deficit and prevent any serious rise in inflation.



Opposition parties accused the government of losing control of the economy. Mr Alexander Downer, leader of the coalition opposition said: "We now know that the Labor government's real agenda is to increase taxes and higher taxes are going to damage Australian families and businesses."

Donors pledge budget aid for Palestinians

Donors, under pressure to give credibility to the Middle East peace process, yesterday agreed to plug a $125m (£76.2m) budget deficit and boost employment for Palestinians, Reuter reports from Brussels.

Mr Jan Egeland, Norway's deputy foreign minister, said after chairing a two-day meeting of donors in Brussels that $102m had been pledged so far to cover the Palestinian budget gap until the end of March 1995. The remainder would be found soon.

"All three sides [Israelis, Palestinians and donors] pledged to work towards one common goal – to fill the $125m gap," Mr Egeland told a news conference.

The donor conference, which included delegates from the European Union, the World Bank, Israel, the Palestinian Authority, Russia and the US, committed an additional $23m to create thousands of new jobs in the area. The employment programme would be defined within two weeks.

The three sides earlier signed an accord detailing Palestinian budget needs, anticipated revenue from taxes and Israeli refunds.

The new funds come at a critical time because of rising discontent among Palestinians who say peace has not brought any financial rewards.

"There was a feeling that unless we provided economic dividends for peace, the situation would become more serious," said Mr Nabeel Shaath, minister of internal co-operation for the Palestinian authority.

"Stability has two legs – one economic and one political," Mr Shaath told reporters.

The donor conference also agreed to form a co-ordination committee to assess how aid was being channeled.

In October last year, donors pledged more than $2bn over five years for projects to support Palestinian self-rule, with $700 million earmarked for this year.

A senior World Bank official said on Tuesday that only $200 to $240m would be disbursed by this year and delays in implementing the peace process had set back economic projects.

The EU pledged $48m of the total needed to plug the deficit.

Summit push in Aids war

Paris talks seek 'more unanimous' attack, writes **Our Foreign Staff**

Political leaders from 42 countries will today meet in Paris at an Aids summit to pledge their moral and financial solidarity to combat the HIV virus that afflicts at least 17m people around the globe.

Although it is the highest-level gathering convened on the issue, the presence of only a few heads of government testifies to the discomfort politicians retain over a disease that has sex and drugs as its two main means of transmission.

Mrs Simone Veil, the French health minister, said France had, in partnership with the World Health Organisation, sponsored the summit to galvanise politicians as well as medical experts into a "more resolute, more sustained, more unanimous" attack on the disease, identified nearly 15 years ago and still spreading fast.

The French organisers say the summit is not just a "consciousness-raising" exercise but also an effort to put new resources into the battle against Aids, particularly in developing countries. At present, only 8 per cent of the money devoted to combating Aids is spent in developing countries where 92 per cent of those affected live. However, some of the much larger amount spent in developed countries goes on research into treatments or cures that would be of general benefit – if they were made affordable.

The 42 countries participating in the summit are represented by a mix of prime ministers (mostly from Africa), health ministers and other officials. Mr Boutros Boutros Ghali, United Nations secretary-general, is also due to attend. They are to issue a declaration expressing solidarity in the Aids battle, stressing the rights of individuals afflicted by Aids or the HIV virus, committing themselves to better prevention and safety procedures in blood transfusions, and promising more resources.

The draft declaration recognises that the disease "is hindering social and economic development" and calls for "national and international partnerships between the public and private sectors, in order to accelerate the development of prevention and treatment technologies ... and to provide for the measures needed to ensure their accessibility in developing countries".

Mrs Veil said the annual international Aids conference held in Yokohama in August this year showed that Aids was spreading to virtually all categories of the population and that the search for a cure was going to be "a long haul". France is to provide FFr100m (£11.9m) next year to help follow up initiatives taken at the summit, in addition to its regular budget for research into Aids of FFr230m in 1995.

France's sensitivity to the world Aids crisis is heightened by its own problems. Despite the fact that France's Professor Luc Montagnier pioneered the discovery of the HIV virus in 1983, France is the worst sufferer in Europe from Aids, with 32,722 cases reported since the start of the epidemic and a further 100,000-120,000 thought to have been exposed to HIV. Half these cases are in the Paris area, where Aids is the chief cause of death for 20- to 34-year-olds.

One of the main themes of the Paris summit, which will also be addressed by people living with Aids, is the need for safer procedures in blood transfusions, an issue the French are well aware of after the infection of several hundred haemophiliacs by Aids-contaminated blood in the early 1980s. Two doctors have gone to jail and Mr Laurent Fabius, a former prime minister, and two of his health ministers have been charged with "poisoning" their fellow citizens.

Canada's Mr Jean Chrétien will be one of the few western prime ministers attending the summit. A national commission of inquiry in Canada is investigating the safety of blood supplies after the infection of hundreds of blood-transfusion recipients in the mid-1980s.

Some farther-flung countries, such as Brazil, will be represented merely by their Paris ambassadors. Brazil aims to highlight links between intravenous drug use and Aids as well as criticise discriminatory laws, such as in Russia where all visitors are required to be tested.

Japan will field a former foreign minister, Mr Taro Nakayama, who is a doctor. It placed greater importance in hosting this summer's international Aids conference, which was opened by Crown Prince Naruhito and Mr Tomiichi Murayama, prime minister.

The UK is sending Mrs Virginia Bottomley, health secretary, who is expected to announce spending plans on HIV-related services for next year. Accompanying her will be Mr Nick Partridge, chief executive of the Terrence Higgins Trust, the leading British Aids charity. Last year she imposed a 65 per cent cut over three years in the trust's grant, but today the ministers' declaration will stress their support for the activities of non-governmental organisations in fighting the pandemic.

Reporting by David Buchan in Paris, Gordon Cramb in London, Bernard Simon in Toronto and Angus Foster in São Paulo

Top court acts in Indian bribes scandal

By Stefan Wagstyl in New Delhi

India's Supreme Court yesterday ordered the government to explain delays in the investigation of a Rs520m (£10.6m) scandal involving illegal foreign exchange deals and payments to top politicians and bureaucrats.

The court called for an explanation why the Central Bureau of Investigation (CBI), the main criminal investigation agency, and the income tax and foreign exchange authorities had not dealt "appropriately" with a case dating back to May 1991.

The court order comes amid mounting public concern about corruption, especially bribes paid by businesses, including foreign companies, to secure public contracts. Allegations of corruption have figured prominently in four states which are currently holding local assembly elections.

The court case stemmed from a public interest petition filed last year by Mr Vineet Narain, a leading journalist, asking the court to examine the CBI investigation into the affairs of Mr Surendra Jain, a New Delhi businessman with extensive political contacts who specialised in arranging power station contracts.

The investigation began in early 1991 with a probe into black market foreign exchange transactions involving armed militant groups in the troubled northern state of Jammu and Kashmir. Investigators tracing a trail of suspicious-looking deals came across Mr Jain's name. In May 1991, the CBI raided premises belonging to Mr Jain's family and seized cash, and receipts for undeclared foreign exchange transactions totalling Rs520m.

To their surprise, the investigators also found diaries detailing alleged payments to leading politicians and bureaucrats totalling just under Rs500m.

According to the petition presented to the Supreme Court, the alleged recipients included Mr Rajiv Gandhi, the late prime minister, and other leading figures of the ruling Congress (I) party, among them Mr Bhajan Lal, the former agriculture minister, and Mr Kalpanath Rai, who was Mr Gandhi's energy minister and is now food minister.

Two other alleged recipients were Mr Mohammed Arif Khan, another former power minister, and Mr LK Advani, leader of the opposition Bharatiya Janata party.

Payments were also allegedly made to bureaucrats dealing with the electricity industry and to others, including the Delhi police chief. While some alleged recipients are named in full in the diaries, others are referred to by their initials.

Virtually all those allegedly identified have denied to Indian journalists that they received any money from Mr Jain.

Mr Narain, the petitioner, told the court that the CBI did nothing to investigate the case between May 1991 and July 1993, when he started his own inquiries. In an extraordinary admission, the solicitor general told the court the delay was caused partly by the fact that the CBI officer supervising the case was caught demanding bribes from Mr Jain to halt the investigation.

Premier says elections are acid test for party

Rao may face defeats in close state polls

Mr P V Narasimha Rao, the Indian prime minister, is entering his biggest electoral test since he took office and launched his economic reforms more than three years ago.

Today and next Monday, voters are going to the polls in his home state of Andhra Pradesh, in southern India, to choose a state assembly. Similar elections have already been held in the small states of Goa, on the west coast, and Sikkim, in the north, and are being completed today in the large southern state of Karnataka. Counting in all four polls will start on December 9.

Despite his 73 years, Mr Rao has summoned up the energy to campaign personally in all four states, saying the elections are an acid test for the ruling Congress (I) party and its policies, including economic reform. "The stakes are high in these elections for everyone; the people, the government, the country," he says.

The indications are Congress, in power in all four states, could fare badly, not least in Andhra. The wily premier has thus been trying to distance his (as opposed to his party's) reputation from the results saying the polls are "no referendum on me".

Strictly speaking the prime minister may be right. The issues which have dominated campaigns in all four states have been local – the performance of state governments, corruption, and rival promises to deliver free rice and other goodies to the voters.

His record is rarely mentioned, while the premier's economic reforms barely register in the minds of most voters.

However two national issues have had a bearing on the elections. One is inflation, which has been running recently at about 9 per cent a year. Although this is considerably lower than the 13 per cent recorded in Mr Rao's first year, prices are still rising uncomfortably fast for many voters.

Congress has also suffered from the prime minister's handling of the sacking of the Ayodhya mosque in December 1992 by militant Hindus. Angry Moslem voters, traditional Congress voters, have turned elsewhere, particularly in Andhra.

If Congress fares badly in the state polls, the prime minister seems bound to run into criticism in Delhi. As the man from Andhra Pradesh and the only southerner at the top of a party traditionally dominated by northerners, he will have to accept some responsibility for defeat in the south.

He seems strong enough to withstand any attempts to oust him until the next general election, due by mid-1996. But a poor showing in these state polls may undermine his authority. Northern Congress leaders such as Mr Arjun Singh, the deputy prime minister, who have criticised Mr Rao before, might try again.

With state elections due in four more big states early next year – Maharashtra, Gujarat, Orissa and Bihar – and with the general election on the horizon, it is probably too late for Mr Rao's rivals to risk an all-out attack. The threat to party unity would be too great.

But if Congress does as poorly as expected in the polls, the party could face a period of sniping and back-stabbing.

Whether he likes it or not, the prime minister's fortunes are most closely tied to Andhra.

A rich agricultural state with a small but fast-growing industrial base, Andhra has done well during his rule. But the Congress-run state has seen two chief ministers ousted in the past five years because of alleged corruption and intra-party quarrelling and the incumbent chief minister also faces allegations of nepotism and bribe-taking.

The challenge to Congress comes from one of India's most colourful politicians – Mr N T Rama Rao.

A 72-year-old former film star universally known as NTR, he entered state politics 12 years ago. With the support of a young new wife, Lakshmi Parvathi, NTR has been drawing huge crowds at rallies.

His promise of subsidised rice at the low price of Rs2 (4 pence) a kilogramme has been the single biggest vote-winner of the campaign.

A Congress party counter-offer of free rice for the poor has been met with widespread scepticism.

But memories of the last NTR administration in the 1980s, also hit by charges of corruption, incompetence and internal dissent, may persuade some voters to stick with Congress.

Recent opinion polls however show NTR's regional party, the Telugu Desam party, could wrest the state from Congress.

In Karnataka the ruling Congress party also faces the likely loss of a clear majority. But with three other groupings all expected to garner reasonable shares of the vote, the outcome could be a hung assembly with seats split between Congress, a rebel Congress faction, the left-leaning Janata Dal and the rightwing Bharatiya Janata party.

In Goa the main political issue is whether the BJP has been able to capitalise on an alliance it has formed with a local party – the MGP – to help overthrow a rather jaded Congress government. The opposition alliance is expected to win but it is not clear how much national benefit the BJP can derive from victory in such a small state.

In Sikkim the fight is on to fill a vacuum created by the overthrow in May of Mr Nar Bahadur Bhandari, who ruled the state for 15 years in the name of the Sikkim Sangram Parishad, a local party, indirectly supported by Congress.

Mr Bhandari is battling to return to power, with his main competition coming from Congress and another local grouping.

Paramilitaries patrol the city of Hyderabad yesterday on the eve of state assembly elections Reuter

CORRECTION

VSNL

In the survey of India published on November 8 it was incorrectly reported that Mr B K Syngal had resigned as chairman of VSNL, the international telecoms carrier. He remains in that post.

INTERNATIONAL NEWS DIGEST

1,000 rescued from cruise ship

Rescue vessels picked up nearly 1,000 passengers and crew from life rafts in the Indian Ocean after fire swept through the Italian cruise ship Achille Lauro off Somalia yesterday. StarLauro, the Naples-based owners of the luxury liner, said two people had died and eight people were injured in the fire on the vessel which made headlines in 1985 when it was hijacked by Palestinian guerrillas.

Three ships, the Panamanian-registered tanker Hawaiian King, the Liberian bulk oil carrier Bardu and the Bahamas-flagged bulk carrier Leira picked up the 572 passengers and 400 crew from life rafts, Italian coastguard officials said.

StarLauro said the 572 passengers included 150 Germans, 92 Britons, 90 Dutch, 12 Italians, eight Swiss, two Israelis, two French and two Belgians. StarLauro said that it did not suspect foul play, adding that it had increased security since the hijacking. Four Palestinian guerrillas of the Abu Abbas faction of the PLO seized the Achille Lauro in the Mediterranean nine years ago. *Reuter, Rome*

Japan's industrial output falls

The Japanese economy is in the early stage of a below-par recovery, as shown yesterday by a larger than expected decline in industrial production in October. Output fell by 0.3 per cent from September, the second month of decline, as a result of a temporary build-up of unsold stocks as demand fell back from a summer spurt. Production was up by 0.7 per cent on average when taken over the three months to October.

That puts output on track to rise by 1.1 per cent this calender year, based on estimates by the ministry of international trade and industry. If achieved, this would be the first annual rise since 1991, when production went up by 1.7 per cent. One encouraging sign is that stocks of unsold goods and materials started to fall back again in October, by 0.1 per cent from the previous month, or down 4.7 per cent year-on-year. *William Dawkins, Tokyo*

BBC opens central Asia service

The BBC World Service yesterday launched two new language services for listeners in central Asia and the Caucasus. The first BBC programme services in the Azeri and Uzbek languages, they are aimed at 60m people in eight former Soviet republics and a further 20m in Iran and Afghanistan. The service will broadcast for four hours a day with specially produced programmes in Azeri, Uzbek and Russian. The rest of the schedule will be made up from the existing Russian service and English language teaching programmes.

The BBC hopes that the new central Asia service, broadcast by both short-wave and satellite for re-transmission on local stations, will reach 2m people within the next two years. *Raymond Snoddy, London*

ANC moves on mining

South Africa's ANC-led government has released a draft policy document on mineral and energy affairs which calls for the unbundling of mining conglomerates and the expansion of public ownership of mineral rights to facilitate the growth of small-scale, black mining. When presenting the document in Johannesburg yesterday, Ms Cheryl Carolus, the ANC's head of economic policy, emphasised that the proposals represented a basis for discussions with the industry and other stakeholders and would probably be revised substantially before becoming official party policy, let alone the basis of new legislation. *Mark Suzman, Johannesburg*

NEWS: THE AMERICAS

Growth in US revised upward to 3.9%

By George Graham in Washington

The US economy grew faster than previously reported in the third quarter as businesses invested more heavily in new equipment, the Commerce Department said yesterday.

Real gross domestic product increased at an annual rate of 3.9 per cent during the third quarter, the department said, rather than the 3.4 per cent rate it had announced a month ago in its advance estimate, based on less complete data.

This indicated only a modest slowdown from the 4.1 per cent pace of growth in the second quarter, although economists caution that the number could still change substantially by the time the Commerce Department issues its final third quarter GDP figure next month.

Most of the change from the earlier figure was accounted for by a rise in the estimate of non-residential fixed investment, which rose at an annualised rate of 14.4 per cent in the third quarter, more than twice as fast as originally reported.

Within this investment figure, capital equipment purchases by producers rose at an 18.0 per cent rate, which economists said should have favourable implications for future productivity, and thus reduce the risk of inflationary pressures.

Real GDP rose at an annual 3.9 per cent in the third quarter, rather than the 3.4 per cent announced earlier

Although the pace of inventory building slowed from the second quarter, it remained rapid and has added more than a percentage point of growth to GDP in the first three quarters of this year.

One of the difficulties economists have had in assessing the path of the US economy this year has been determining the extent to which producers have been increasing their inventories voluntarily, or have simply found themselves stuck with excess stocks that they cannot sell.

In another report that slightly eased worries about the build-up of inflationary pressures, the Federal Reserve issued revisions to its statistics on industrial production and capacity utilisation over the last three years.

The new data, which incorporate additional information from trade associations and new estimates of industrial capacity, show that industrial production grew more strongly in 1991 and 1992 than previously reported, but slower in 1993 and 1994. This slower rate is attributed largely to the introduction of new weights assigned to the computer industry to take account of the sharp drop in the price of computing power over the years.

After the revision, the rate of industrial capacity utilisation in October drops to 84.6 per cent, from the 84.9 per cent originally reported, while the capacity utilisation in the manufacturing sector drops from 84.7 per cent to 84.0 per cent.

Bank of Canada resists pull of higher US interest rates

The Canadian dollar has fallen steadily, writes **Bernard Simon**

The Bank of Canada is fighting a quiet but intense battle to prove that Ottawa is not a hostage to US economic policy.

Since the US Federal Reserve raised its Fed funds rate from 4.75 per cent to 5.5 per cent in mid-November, Canada's central bank has resisted a similar tightening of monetary policy.

It has raised the key band for its overnight call rate by only one-quarter of a percentage point to 5-5.5 per cent. This relatively modest rise has helped Canadian banks maintain their prime lending rate for the time being at 7 per cent, where it has been for the past 10 weeks.

Foreign investors have lightened their Canadian portfolios

Canadian dollar: under the burden

Source: FT Graphite

The gap between US and Canadian interest rates, which is closely watched by financial markets, has narrowed markedly. Yields on three-month Treasury bills are currently only 0.12 percentage points higher in Canada, the smallest spread in a decade, and down from more than 2 percentage points last June.

The burden so far has fallen on the Canadian dollar, which has steadily slipped from almost 74 US cents at the beginning of November to around 72.55 cents yesterday.

Although selling pressures have been relatively light, the Bank of Canada has intervened in the past two weeks to slow the decline in the currency.

The central bank hopes to convince markets that economic trends in Canada justify an accommodative monetary policy. "The fundamentals in Canada are significantly better than the US," says Mr David Adamo, who heads the fixed-income research department at ScotiaMcLeod, a Toronto securities firm.

Growth is strong north of the border. Statistics Canada said yesterday that gross domestic product expanded at an annualised 6.7 per cent in the second quarter and 4.7 per cent in the third. But inflation is non-existent. Canada's consumer price index fell by 0.2 per cent in the year to October.

The central bank's policy is almost certainly supported by Mr Paul Martin, finance minister. By raising debt-service payments, higher short-term interest rates would complicate Mr Martin's efforts to bring down the budget deficit to his target of 3 per cent of gross domestic product by early 1997.

Economists are divided on whether the bank will succeed in holding down rates, and whether the dollar will continue to slide.

Mr Andrew Spence, economist at Citibank Canada, predicted that a rally in commodity prices could help push the Canadian currency higher next year. But Mr Daniel Kelly, vice-president for financial markets research at CIBC Wood Gundy, said that nervousness could increase ahead of next February's budget. Speculation has grown in recent days that commercial banks will soon lift prime lending rates.

Foreign investors have signalled their concern by substantially lightening their Canadian portfolios in recent months. Foreigners sold C$9bn (US$6.5bn) of Canadian bonds in the first nine months of this year, compared with a C$7bn inflow in the same period of 1993.

Chile realigns its currency against dollar

By Imogen Mark in Santiago and Stephen Fidler in London

The Chilean peso revalued by 3.5 per cent yesterday against the US dollar after the central bank announced measures to realign the band in which the currency is allowed to trade.

The new revaluation came on top of a effective appreciation of 13 per cent in real terms already this year. The dollar was trading at 402-403 pesos yesterday among banks – compared with Tuesday's 416.50, then its highest permitted level.

The Chilean peso is allowed to fluctuate 10 per cent either side of a reference rate and the central bank measures moved this reference rate to about 418 pesos to the dollar, from 462.7 a day earlier. Bankers estimated the new ceiling rate for the peso to be around 376 to the dollar.

Technically, the central bank adjusted the weightings of the three currencies which are used to calculate the reference rate, with the dollar's weighting reduced to 45 per cent from 50 per cent, the yen's rising to 25 per cent from 20 per cent, and the D-Mark unchanged at 30 per cent.

The peso had been at the top of its permitted range since the beginning of November, despite repeated dollar purchases by the central bank calculated by some bankers at well over $1bn (£637m). The central bank was reported to have intervened again yesterday, after the peso opened at 396 to the dollar.

This year has seen record inflows of capital, with more than a dozen Chilean companies now trading on Wall Street after share issues in the New York market. Direct foreign investment also rose by 60 per cent, to $2.2bn, the foreign investment committee announced yesterday.

In addition, export earnings have recovered as prices for several of Chile's main exports, chiefly copper – which this week reached a record high – and wood pulp, have improved strongly during the year. As a result the trade balance is showing a $400m surplus, compared with an expected deficit of $900m.

Bankers said more central bank dollar purchases would have worsened problems in managing the money supply, and that the revaluation made it more likely that Chilean inflation, which fell below 10 per cent this year, would remain in single digits next year. The revaluation is likely to hurt exporters, and benefit importers.

Zedillo names reformists to join cabinet

By Damian Fraser in Mexico City

Mr Ernesto Zedillo, who today will be inaugurated as Mexico's president, has named a series of reform-minded officials to senior positions in his cabinet, indicating his commitment to economic and political change.

Serra: negotiated free trade deal with US and Canada

Mr Jaime Serra Puche, the 43-year-old former trade minister in the administration of President Carlos Salinas and a committed free-marketeer, was named finance minister. The top political post went to Mr Esteban Moctezuma, a youthful 40-year-old who is believed to be a cautious advocate of further political reform. Mr Luis Tellez, 36, a US-educated economist and principal architect of Mexico's recent agriculture reforms, was appointed the president's chief of staff.

In a signal of his decision to move ahead with reform of the judicial and legal system, Mr Zedillo named Mr Antonio Lozano, a member of the opposition National Action party, as attorney-general. Mr Lozano is expected to take charge of the troubled investigation into the assassination of Mr José Francisco Ruiz Massieu, the former number two official in the party.

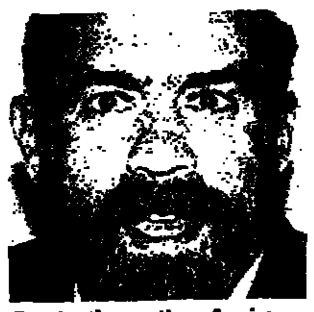
The large number of foreign-trained technicians in the cabinet has led to concerns that the new government lacks political experience and fails to reflect different interests in the ruling party. One of the few old-style politicians to be rewarded was Mr Ignacio Pichardo, the president of the PRI, who was named energy minister.

Mr Pichardo has vigorously denied allegations that he conspired with other senior officials to block the investigation into the murder of Mr Ruiz Massieu, made by the dead man's brother, Mario.

Mr Serra, who like Mr Zedillo has a doctorate in economics from Yale University, negotiated the free trade agreement with the US and Canada. He is likely to deepen the economic reforms that characterised the presidency of Mr Salinas.

In a recent interview, Mr Serra expressed his unequivocal support for continuation of current exchange rate policy, arguing that devaluation would feed inflation and raise interest rates.

Mr Moctezuma, an economist who has little political experience, has established good relations with some senior opposition figures in recent months. While his views are not widely known, he is considered more open to further democratic reform than the other candidates mentioned for the post. He is personally close to Mr Zedillo, and can be expected to be a loyal lieutenant.



Gurria: the cautious foreign ministry faces a shake-up

Mr José Angel Gurria, the loquacious former debt chief, becomes foreign minister, in a move that is bound to shake up Mexico's cautious foreign office, and lead to a more aggressive foreign policy.

NEWS: WORLD TRADE

Bhutto seeks $5bn power sector funding

By Peter Montagnon, Asia Editor

Pakistan is seeking additional foreign investment worth about $5bn in its power sector to improve transmission and the supply of fuel to power stations, Prime Minister Benazir Bhutto said in London yesterday.

Pakistan had received "an overwhelming response" to its efforts to attract foreign investment in power generation, receiving applications for four times the country's needs, she told a meeting of businessmen at the Confederation of British Industry.

Now it needed investment in power transmission, oil pipelines and terminals and dedicated railway tracks as part of its effort to ensure that power shortages were not a constraint on growth.

Ms Bhutto was at the CBI to sign agreements covering more than £1bn ($1.56bn) of UK investments in Pakistan's energy, chemical and tourism sectors. Among these are a letter of intent from ICI to build a pure terephtalic acid plant costing $400m at Port Quasim.

Other agreements signed by Lasmo, British Gas, Shell and Premier Consolidated Oilfields cover exploration and development of Pakistan's oil and gas fields.

British Gas' initial investment with partners including Monument Oil and Gas will be $15m, but the figure could rise to $250m if its exploration in the Sulaiman mountain range of Baluchistan is successful.

Businessmen say the rush of investment in Pakistan reflects its liberal approach, under which there is no limit on foreign ownership of any production facilities. All restrictions on repatriation of principal, interest, dividends and profits have been lifted and the domestic currency is fully convertible on current account.

Although Pakistan has received a large number of investment commitments in power generation, some businessmen believe that fresh opportunities could arise if financing on existing deals falls through. Investment in power transmission could prove more difficult than in generation, not least because of the difficulty in ensuring supplies are paid for, they add.

Pakistan is also seeking to privatise two existing power stations at Kot Addu and Jamshoro. National Power, which yesterday signed an agreement covering its Hub River power project, is bidding for these stations. Other companies involved in yesterday's signing were Midlands Electricity, Greyhound House, which is involved in tourism, and Biwater, which plans to build a $30m hydroelectric power station near Gilgit.

See Observer

Automobiles Peugeot of France yesterday said it planned to assemble diesel cars in Pakistan from 1996 with Pakistani carmaker Worldwide Motors, AFX reports from Karachi. Mr Yves Barbe, Peugeot senior executive vice-president, said talks were at an "advanced stage". Peugeot intends to manufacture 10,000 cars there each year.

Mickey Kantor, US trade representative, leaves Capitol Hill precipitously Tuesday night after the House had approved Gatt AP

Administration cautions against over-confidence

US Senate starts Gatt debate

By Nancy Dunne in Washington

The US Senate yesterday began debating the Uruguay Round trade pact, one day after the House of Representatives voted by a margin of almost 2-1 for passage of the accord.

Vote counters yesterday said the administration was just a few votes short of the 60 out of 100 votes needed in the Senate. However, in a morning meeting, Mr Lloyd Bentsen, the Treasury secretary, and Senate leaders cautioned against over-confidence and urged business groups to lobby "until the last vote is counted".

Both sides in the debate acknowledged that the outcome of the Senate vote would be crucial to the US economy and US international status. Opponents warned that it would cost jobs. Senator Ernest Hollings, whose delaying tactics prompted today's special session, warned of the collapse of the US economy as jobs in industry were replaced by services.

Senator Bill Bradley, a New Jersey Democrat, said the agreement would benefit the average US family of four $1,700 for every year of the next 10.

"How often are we able to put $1,700 in a family's bank account and reduce the budget deficit at the same time?" he asked.

The voting dynamics are complex. The Senate may take a lead from Tuesday's convincing vote of approval in the House, but those up for re-election in two years are cautious. Senator Max Baucus, a Democrat, and Senator Hank Brown, a Republican, both usually in favour of trade liberalisation and both up for re-election in 1996, have come out against the pact.

In the implementing legislation, the administration strove to address concerns of various constituencies; in the view of some it tried too hard. The 10-year phase out of protection for textiles and apparel – one of the great concessions for the developing countries – gives virtually no liberalisation for the first few years and little until the end of the transition period.

The American Textile Manufacturers Institute, which usually seeks protection, issued a statement yesterday acknowledging but not condemning the House vote. Passage of the legislation "is just the beginning of major changes we will see in international trade policies and practices," said Mr William Armfield, ATMI president. "Much is still undecided and unexplored, but opportunities will exist for our industry, along with new problems".

South Korea yesterday served notice it may challenge US implementing legislation for the Uruguay Round when the World Trade Organisation is set up next year, writes Frances Williams in Geneva.

Seoul is angry that the legislation gives the US trade representative the right to designate which countries count as developing in applying the new subsidies accord. South Korea, Hong Kong and Singapore have thereby been excluded. Raising the issue at a meeting of the WTO preparatory committee in Geneva, South Korea said the US had not challenged its developing country status during the Uruguay Round negotiations. Hong Kong said the US legislation was contrary to the practice of "self-selection" for such status in the General Agreement on Tariffs and Trade.

Mr Peter Sutherland, Gatt's director-general, told the meeting that 36 countries had now ratified the Uruguay Round trade pact. None of the Quad group of leading traders – the US, European Union, Japan and Canada – have yet done so.

UK watchdog warns about damage to competitiveness of smaller airlines

Air travel incentive agreements under fire

By Michael Skapinker

Action should be taken against large airlines which offer financial incentives to companies to use their flights, the UK's Civil Aviation Authority said yesterday. The authority said supervisory bodies should keep a "watchful eye" on frequent flyer programmes and code-sharing agreements to ensure they were not being used to keep smaller airlines from competing.

In a report on competition on long-haul routes to and from Europe, the authority said that bilateral airline agreements remained the most serious obstacle to competition.

Mr Christopher Chataway, the authority's chairman, said: "Aviation is a mature industry and policies based on nationality and an equal division of benefits between airlines are increasingly out of touch with modern economies."

He added: "There is intrinsically less scope for competition from smaller airlines on long haul routes than on short haul. Given this, the major airlines' commercial strategies must not be allowed to threaten the continuation of such competition as there is."

The report said deals between large carriers and companies, under which the companies received financial incentives in return for using the airlines' global network, had anti-competitive effects.

The authority said any action against such agreements "would need to be at supra-national level, involving at least the European Commission and the US authorities and probably others".

Frequent flyer programmes run by large airlines had the potential to be a substantial barrier for smaller carriers with fewer routes, the report said. It concluded, however, that intervention against frequent flyer programmes would be premature.

This was because smaller carriers could benefit from alliances which allowed frequent flyer points to be transferred from one airline to another. The authority said, however, that the effect of the programmes on smaller carriers should be closely monitored.

The report added: "If it proves necessary to intervene in the future this might be achieved by requiring larger airlines to accept smaller carriers as members of their frequent flyer programmes or by making awards transferable."

The issue of code-sharing was less clear cut, the authority said. Code-sharing is when two airlines use a single flight number to market a route. Passengers might begin the flight on one of the airlines and change to an aircraft belonging to the other during a stop-over.

The report said code-sharing was sometimes used to benefit smaller airlines, enabling them to compete more effectively with large carriers. The difficulty occurs when code-sharing results in the withdrawal of an existing service by one of the airlines involved. However, the authority did not recommend immediate action.

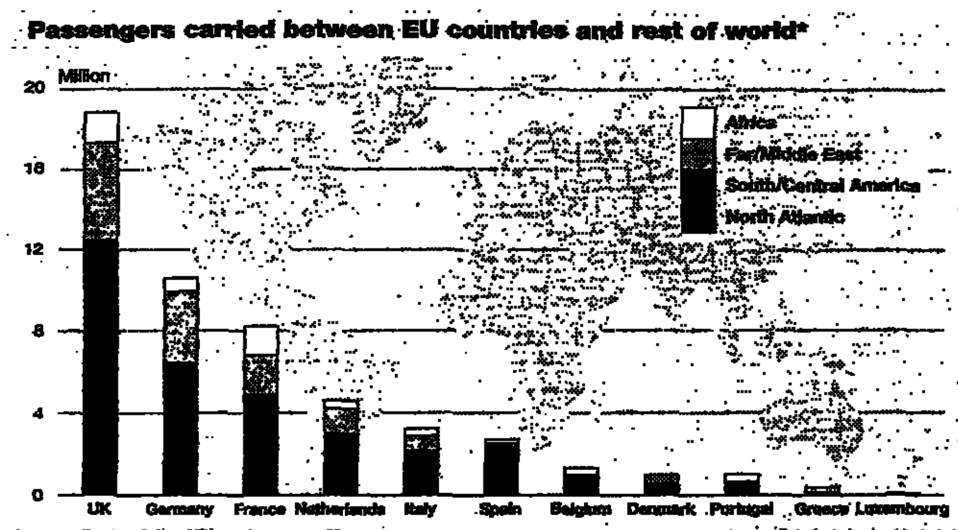
The report said ways were needed to be found to promote competition between European and non-European airlines, particularly on routes where competition was weak. Bilateral air agreements hampered competition, but these were likely to come under pressure in future, the report said.

Among developments likely to weaken the bilateral agreement system were the growth of cross-border airline shareholdings and the need for carriers to have access to wider sources of capital.

Airline Competition on European Long-haul Routes from CAA, PO Box 41, Cheltenham, Glos. GL50 2BN. £19.20.

See Editorial Comment

Passengers carried between EU countries and rest of world*



Source: national statistics of EU member states, 1991

* Data for Ireland not included

Mazda clinches deal on Fiesta

By Kevin Done, Motor Industry Correspondent

Ford and Mazda have reached agreement in principle for Ford to supply its European-built Fiesta small car to Mazda for sale through the Japanese group's European dealer network. The deal is a breakthrough for Mazda, which is the last of the leading Japanese carmakers to secure a European production source.

Ford said yesterday that production of the Mazda-badged version of the Fiesta would begin in about 12 months with an output of around 25,000 a year.

The cars will be produced at one of Ford's three Fiesta assembly plants in Europe but Ford said it had not yet been decided which one would be selected. The plants are at Dagenham, near London, at Cologne in Germany and at Valencia in Spain.

The current Fiesta, which was launched in 1989, is due to be replaced in the second half of next year with an extensively modernised range. This will include a new engine, code-named Sigma, developed in co-operation with Yamaha of Japan. The engines will be built at the Valencia plant.

Mazda, which is 24.5 per cent owned by Ford, will receive a version of the updated Fiesta with slightly differentiated exterior and interior styling.

Ford faces a complex task of allocating future Fiesta-based production between the three European plants because of an ambitious new product programme.

This includes the launch of the modernised mainstream Fiesta range, the addition of a new coupé and the introduction of a range of smaller cars derived from the Fiesta but designed to compete with rivals such as the Fiat Cinquecento in the mini segment of the European market.

The deal for Ford cars to be sold under a Mazda badge in Europe is a reversal of the two groups' long-established arrangement in Asia, where some Mazda cars such as the Mazda 626 and the Mazda 323/Familia are sold respectively as the Ford Telstar and the Ford Laser. In the US Mazda is to sell a version of the Ford Ranger pickup.

WORLD TRADE NEWS DIGEST

Prawn tariff irks Andean group

Andean countries are fighting a rearguard action against proposed revision of the European Union preferential tariff regime which would impose tariffs on their exports to Europe of shrimp and tuna. Bolivia, Colombia, Ecuador and Peru have enjoyed benefits under the EU's generalised system of preferences since 1990 to encourage them in the fight against drugs. Under a new regime of preferences, expected to come into force over the next month, Venezuela is expected to be added to the list. An Andean customs union incorporating all five countries is due to go into effect on January 1.

The regime, as proposed, would raise from zero the tariff on tuna to 24 per cent and on prawns to 5-18 per cent. Governments from Ecuador, Colombia and Venezuela have argued this will have a big impact on a sector that generates much employment, often in poor regions. Mr Humberto de la Calle, Colombian vice-president, is in Europe this week to press for concessions. He said the industries employed 20,000 people in his country. The tariffs are being urged largely by France, but also by Italy. Paris wants to protect its own small tuna fishing fleet, but also the shrimp and tuna industry in French Guyana. *Stephen Fidler, Latin America Editor*

US to sell helicopters to Egypt

The US plans to sell 12 Apache attack helicopters made by McDonnell Douglas Corporation to Egypt for $318m, the Defence Department said yesterday. The package would include four spare Hellfire missile launchers, six spare engines and night vision and targeting systems, the Pentagon said in a statement informing Congress that Egypt was seeking the Apaches. Egypt had already bought 24 of the Apaches and the additional sale would not upset the military balance in the Middle East, the announcement said. The proposed sale is expected to be completed without opposition from Congress. *Reuter, Washington*

WTO perks row delays HQ

Continued disagreement over diplomatic perks is delaying completion of the formal headquarters agreement between the Swiss authorities and the future World Trade Organisation. Trade officials say the accord may now not be finalised before the WTO comes into effect on January 1. At a meeting yesterday of the WTO preparatory committee, Mr András Szepesi, Hungary's Gatt ambassador, said progress had been made on such issues as accommodation, conference facilities and car parking. However, there had been little headway on the treatment of WTO staff and country delegations in Geneva. Last summer Geneva won the WTO headquarters site in a contest with Bonn after promising more generous treatment of diplomats. The Swiss authorities deny they are backtracking on these pledges but say the matter of diplomatic perks should be separate from the WTO accord. *Frances Williams, Geneva*

Contracts and ventures

■ Mannesmann, one of Germany's leading engineering groups, will begin a joint venture with Baoshan Iron and Steel to provide a full range of services for the construction of steel plants in China and south-eastern Asia. The new operation, in which Mannesmann Demag Hüttentechnik (MDH) will hold a 51 per cent stake, will be called Demag Metal Plant Technology and is to be based in Shanghai. MDH has built a number of steel plants in China over the last 30 years. The joint venture would enable them to compete more effectively in other markets in the region, Mannesmann said. *Michael Lindemann, Bonn*

■ Thai Airways International will take delivery of three new Airbus Industrie A330-300s in December after Airbus delayed delivery of the aircraft, the first of seven on order, for technical reasons earlier this year. Thai also has an option to buy an eighth aircraft. *Reuter, Bangkok*

■ Coca-Cola said it would begin building a bottling plant in Zhengzhou in Henan Province, central China. The $18m facility is the fourth joint-venture Coca-Cola plant in China. *Extel, Hong Kong*

■ Electrolux of Sweden said it signed a joint venture agreement with Beijing Yadu Enterprises Development to produce 200,000 home water purifiers a year. It gave no financial details. *AFX, Stockholm*

■ Syria's state-run shipping line has invited bids for two new merchant ships to carry heavy cargo containers and general cargo. It has called for international tenders to build the vessels, with a closing date of December 25. *Reuter, Damascus*

Indonesian trade policies chided in Gatt report

By Frances Williams in Geneva

High trade barriers and lack of competition in domestic markets are hindering growth of Indonesia's economy, the secretariat of the General Agreement on Tariffs and Trade says in an unusually critical report published yesterday.

In particular, it highlights concentration of decision-making on trade and industrial policies in the hands of President Suharto and highly discretionary use of policy, including financial assistance, to aid certain industrial sectors.

Indonesia, host last month to the Asia-Pacific Economic Co-operation summit, which endorsed regional free trade by 2020, remains one of the most protected economies in south-east Asia. Though average tariffs have been cut from 37 per cent to 20 per cent over the past decade, recent reforms have been inadequate "to overcome the anti-export bias of the trade regime and stimulate domestic competition".

Choosing its words carefully, Gatt echoes criticism of widespread cronyism in the presidential circle. Trade policy-making, directed by the president, "is highly informal and centralised" while "close ties also exist between the government and large business groups or conglomerates".

Details of government assistance to strategic industries "remain obscure" while "transparency is undermined by the substantial off-budget funding apparently provided by the government to aid certain public enterprises". The report singles out aid to PT IPTN, the state-owned aircraft company, "which also benefits from interest-free loans financed from a reforestation fund".

Though Gatt does not say so, the company is managed by Mr B J Habibie, minister of research and development and a close friend of President Suharto. Use of reforestation funds is subject of a legal challenge by environmentalists.

Gatt also criticises Indonesia's widespread use of export controls which affect more than half the country's non-oil exports, especially wood products. The industry has benefited from cheap logs but Indonesia's processing of plywood – the second biggest non-oil export after textiles – "is technically inefficient by world standards, wasting timber and appearing to contribute little to forest conservation".

While Indonesia has made "great strides" in lowering import barriers, the report says tariffs vary widely; up to half all imports enter at concessional rates for specific projects or for exporters.

Hualon grants to be challenged

By Guy de Jonquières, Business Editor

European textile and clothing manufacturers yesterday launched a challenge in the European Court to a £61m ($95m) UK government grant made to Hualon, one of Taiwan's biggest industrial groups, to build a textiles plant in Northern Ireland.

The case alleges that the European Commission broke its own rules by approving the aid earlier this year. European manufacturers argue the £157m plant will add to capacity and threaten jobs in an already over supplied sector.

The Northern Ireland Industrial Development Board, which is responsible for the project, said last night that it could not comment until the court had formed a view on the case. Hualon was unavailable for comment at its headquarters in Taipei. Hualon has recently reaffirmed its commitment to the proposed plant, which it says will create 1,800 jobs in Belfast. However, the filing of the case raises further uncertainties about the project.

The start of the project has already been delayed several months to allow time for appeals to the Commission's decision. It is unclear whether Hualon will wish to proceed until the court rules, which is not expected for at least 18 months. The IDB said yesterday building work on the proposed plant had yet to begin, and it had disbursed none of the grant to Hualon. The European Court case has been brought by Aiuffas, an organisation of European filament weaving companies, and the Apparel, Knitting and Textiles Alliance, the lobbying arm of the British Textiles and Apparel Confederation.

Minister confident of beating VAT rebels

Mr Kenneth Clarke, the chancellor, last night launched a post-Budget campaign to head off a Tory rebellion on the planned increase in value added tax on home-heating fuel, Philip Stephens and Peter Norman write. Amid signs at Westminster that this week's Budget had calmed the recent panic on the Conservative backbenches, Mr Clarke was preparing a series of one-to-one discussions to persuade rebel MPs to drop their opposition.

Mr Clarke told colleagues that he was confident though not certain that the government would defeat a Labour attempt next week to reopen the issue of whether the VAT rate on fuel should rise from 8 to 17.5 per cent.

The febrile atmosphere at Westminster was eased also by confirmation that Mr John Major's opponents on the right of his party had failed to muster enough support to force a challenge this year to his leadership.

The deadline for nominations for the party leadership passed without a rival contender. The main figures who had been seeking to mount a challenge conceded that they had failed to muster the required signatures of 34 MPs.

But the emergence of a cabinet split on whether Mr Major should offer a referendum on the next stage of European integration provided a reminder of tensions beneath the surface over Britain's relations with Brussels.

Mr Douglas Hurd, the foreign secretary, and Mr Major have both recently softened their opposition to the idea of an eventual referendum.

But it is thought that Mr Clarke and Mr Michael Heseltine, the trade secretary, are implacably opposed to the idea of offering a commitment now. The cabinet's two leading pro-Europeans are thought to judge that the pledge of a referendum would not solve the problem of finding policies to win the support of a broad majority in the Tory party.

Mr Clarke's initiative on VAT came after Mr Tony Blair, the Labour leader, published details of a Commons motion for next Tuesday which would allow MPs to vote during the passage of the finance bill on whether to freeze VAT on fuel.

The Labour leader appealed for support from the more than half a dozen Tory MPs who have already indicated they considering rebelling against the government on the issue.

But the chancellor plans to warn the would-be rebels that Labour is seeking a platform to wreck the finance bill. Defeat for the government in next week's vote would provide a dangerous precedent for future Budgets, giving the opposition much greater leverage over the government's fiscal policy.

Mr Clarke said he found the position of those opposing the VAT levy "faintly incredible". He accused opponents of not producing alternative ideas for raising revenue. That view was echoed in the Commons by Mr Jonathan Aitken, Treasury chief secretary, who told potential Tory rebels that voting down the increase in VAT would be a "cop-out".

Labour's ruling National Executive Committee yesterday decided to press ahead with plans to rewrite the party's constitution, including the commitment to public ownership enshrined in the 75-year-old Clause IV, David Owen writes.

The existing Clause IV, written in 1918, appears on every Labour membership card and commits the party to "common ownership of the means of production, distribution and exchange".

A document outlining plans of Mr Tony Blair, the party leader, to update the party's guiding principles was endorsed by its ruling body by 20 votes to four. Mr Blair said it had been "an historic day for the Labour party".

The move sparked an angry response from leftwingers in the party who regard scrapping Clause IV as tantamount to declaring war on the heart of socialism.

Mr Blair's document accepts the market economy and calls for tougher regulation of the privatised utilities instead of re-nationalisation.

Some union representatives on the executive joined the leftwing MPs in raising objections to Mr Blair's efforts to have a rapid consultation period followed by a special conference to endorse the new constitution next April.

The committee will meet in two weeks to decide the timetable for consulting Labour's grassroots and the trade unions before a new clause is drawn up for agreement either at a special conference or at the party's annual conference next autumn.

But Mr Blair is said to be confident that he will secure agreement on an accelerated timetable through the convening of the special conference.

Barclays fund faces test case about tax

By Norma Cohen, Investments Correspondent

Barclays Bank Pension Fund, one of the UK's largest, has been hit with a special assessment by the Inland Revenue in what will be a test case on whether pension scheme profits earned by underwriting new share deals ought to be taxed.

Barclays is the first pension scheme to face a formal assessment. But it is understood that as many as 10 other large pension schemes have been issued so-called "protective assessments" in respect of their underwriting profits in recent years.

The Inland Revenue had issued those assessments saying it believes underwriting new share issues is a trading activity not covered by the tax exemption which applies to profits earned on ordinary investment activities of pension schemes.

Barclays' pension scheme, which has almost £7bn ($11.5bn) in assets, was assessed last summer by the Inland Revenue in respect of the 1989-90 fiscal year. Barclays is contesting the assessment and a hearing is expected before the tax commissioners early next year.

If Barclays loses, it may appeal to a panel of special commissioners.

However, if it loses there, pension schemes all over the country are likely to face requests for back taxes on underwriting, forcing schemes to reconsider whether they wish to continue the exercise.

The move to review underwriting income comes as the fixed commissions earned by pension funds are under attack from other quarters.

In November, the Office of Fair Trading released a study conducted on its behalf which concluded that fund managers generally – including pension schemes – earned profits on underwriting far beyond the risks they take on.

The OFT's inquiry centered on whether there is sufficient competition in the underwriting of new share issues.

$1.3bn upgrade urged for western line to Scotland

BUDGET 1994

The west coast main railway line between London and Scotland should be upgraded over its entire route at a cost of between £800m ($1.3bn) and £1bn, the study team working on the project said yesterday, our Transport Correspondent writes. This represents a more radical modernisation of the 550-mile line than was originally planned, but is justified by the large savings which will be made on maintenance costs, Mr Gil Howarth, Railtrack's director of major projects said.

The original proposals for the line envisaged a £500-£600m upgrade concentrating on the oldest section between London and Crewe with the section to the north to be improved at a later unspecified date.

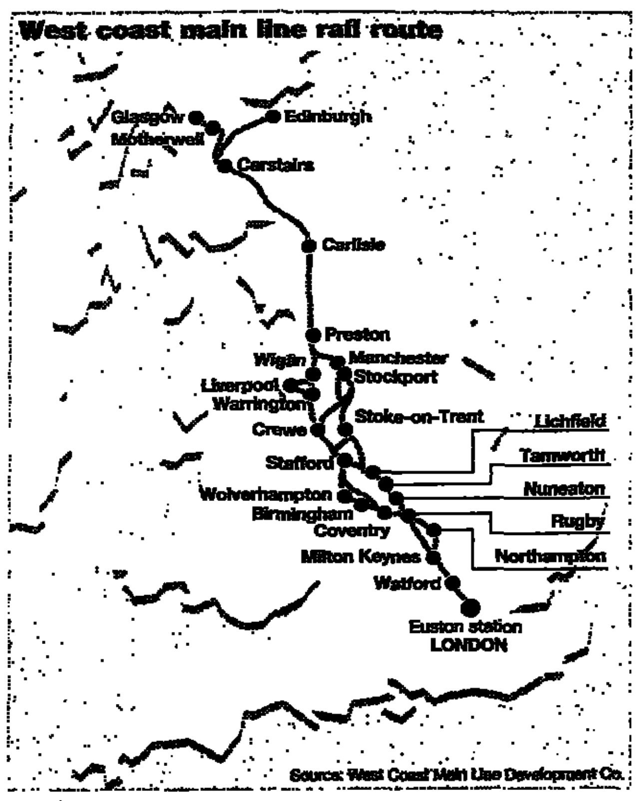
The west coast main line is an important part of the government's private finance initiative, outlined in Tuesday's Budget plans. The initiative is designed to lure private-sector funds and expertise into large infrastructure projects.

A basic upgrade costing £800m would provide a line capable of running trains at up to 240kph though some stretches would be restricted to 100kph.

The project team believes the entire upgrade could take place within the existing track corridor. Higher speeds to match the French *trains à grande vitesse* which reach almost 300kph would require the track to be straightened and would push up costs. The line will be designed, however, to accommodate tilting trains now in use in Italy and Sweden which could travel at up to 250kph.

The modernisation is not designed to accommodate very high speeds, but the upgrade would still reduce journey times between London and Glasgow from five to four hours.

The study team believes this would provide journey times which could compete with the airlines over longer distances and attract more passengers to the route, which is one of the busiest in the UK.



Employers scorn measures for long-term jobless

By Robert Taylor, Employment Editor

Many of Britain's employers will not use the government's main Budget measures to encourage the recruitment of the long-term jobless unless the government abandons cuts in its training programmes and concentrates on providing the unemployed with skills.

This was the judgment yesterday on one of the main planks of Mr Kenneth Clarke's Budget from the UK's most influential employer organisations, the Confederation of British Industry and the Institute of Directors.

"The worry is employers are being asked to hire workers who have been without a job for over two years, but at present few of them have been trained," said Mr Robbie Gilbert, the CBI's social affairs director. "For companies it comes down to a question of their employability."

The main measures to encourage employers to recruit the long-term unemployed were: a 0.6 per cent cut in their National Insurance contributions for low earners; a 12-month NI rebate for each worker hired after two years of unemployment; an extension of the two existing recruitment incentives. A recent CBI survey of the long-term unemployed found the biggest barrier to hiring among employers was a lack of "suitable experience or qualifications".

The CBI and the Institute of Directors have been urging the government to improve the skills of the unemployed. "A greater proportion of long-term unemployed people need to be persuaded of the value of training and skills improvement," said the CBI.

The Trades Union Congress warned that "any strategy for full employment must address the skills and qualifications of unemployed workers with a significant expansion of training facilities".

A tax loophole allowing investors to make unlimited tax-free gains from UK shares was closed yesterday, Bethan Hutton writes.

The chancellor announced plans to ensure that gains from securities linked to share indices could not escape the tax net. Up to now, this has been possible if the securities were structured as both qualifying corporate bonds – capital gains tax exempt – and qualifying indexed securities – exempt from income tax on gains. Most qualifying indexed securities are linked to the retail price index, or another inflation measure, but current rules also allow for linkage to a UK equity index.

Index shows accelerating price pressure

By Gillian Tett, Economics Staff

Price pressures are accelerating in manufacturing, with more businesses reporting rising material costs, the Purchasing Managers index from the Chartered Institute of Purchasing and Supply suggested yesterday.

The seasonally adjusted price index rose in November to the highest level in its three-year history. The findings are likely to fuel City concerns that inflation may begin to rise again.

But with surveys like the purchasing index now painting a slightly different picture from the pattern seen in recent official government data, economists themselves are also increasingly at odds about which indicators are now providing the best guide to future inflation trends.

In recent months the Bank of England, the UK central bank, has been expanding the list of indicators it uses to assess inflationary pressures, to include not only monetary aggregates but also factors such as commodity prices.

Tuesday's Budget indicated that the Treasury is also paying closer attention to a broader scope of data, since the government's Red Book on the economy specifically cited – for the first time – wage costs and material input prices as factors that would influence interest rate decisions.

Other City institutions are exploring ways to measure inflation through a composite index, rather than single indicators. The CIPS purchasing and supply institute launches an index of leading indicators of inflation next month.

Part of the reason for the new interest in composite indicators is that different surveys and data have been slightly divergent in recent months. Yesterday's Purchasing Managers' Index, for example, suggested that input prices rose fast in November after a strong increase in October.

This broadly tallies with a more established survey from the Confederation of British Industry, which showed that a growing number of businesses planned to raise output prices, partly in response to rising raw material costs. But recent government data suggest price pressures are more muted.

	Purchasing managers' index	Output	Prices	Stocks
1994				
Aug	59.1	58.3	71.2	51.0
Sep	58.7	62.2	70.2	46.9
Oct	58.1	60.1	70.7	45.2
Nov	57.9	61.6	72.0	48.6

Source: Purchasing Managers' Index/CIPS
A reading of the Purchasing Managers' Index below 50% indicates that the manufacturing economy is generally declining, above 50% that it is generally expanding.

Schools to offer more languages

By John Authers

The government hopes to convert 250 secondary schools into technology and language colleges over the next three years using £60m ($98.4m) released by the Budget, it was announced yesterday.

Detailed proposals for language schools will be published next month. However, organisers expect that schools will be required to show that they are offering intensive tuition in at least three languages, including one "hard" language – taken from a list likely to include Chinese, Japanese and Russian.

Fifty schools have become technology colleges since the scheme was piloted earlier this year with government expenditure of £6m. Funding will rise to £15m in 1995-96 and £25m in 1996-97.

The new scheme represents a sharp expansion, however, as it will be open to all local authority schools in England to apply for funds. Until now funds have been restricted to grant-maintained schools which have opted out of local authority control and voluntary-aided schools – usually church foundations.

Teachers' unions criticised the scheme as a thinly disguised financial incentive for schools to opt out of their local authorities.

Under the scheme, schools must raise at least £100,000 from the private sector to put towards extra technology facilities. This triggers government matching funds on a pound-for-pound basis, plus an extra £100 per pupil in annual maintenance grants for seven years. Donations in kind, such as computer equipment, also qualify for matching funds, and Rolls-Royce, the manufacturer, has provided two Derby schools with working aircraft engines for use in technical demonstrations.

The Confederation of British Industry strongly welcomed the plan, it said it would encourage members to sponsor language colleges, and added: "By the year 2000 foreign languages will be as vital in business as numeracy."

Heirs of Master Hackney Coachmen face protests at minicab licence proposal

London cabbies safeguard monopoly

By Richard Wolffe

Black taxicabs appear to have won the fight to protect their 300-year-old monopoly to pick up passengers on London's streets, according to a leaked government report.

The report, which is believed to be addressed to Mr Steven Norris, minister responsible for transport in the capital, recommends that taxi drivers should continue to have the sole right to ply for trade in public.

It also says that rival minicabs, which must be pre-booked, should be licensed in London to conform to stricter regulations. But taxi drivers are today preparing to protest against the government plans, which they claim will undermine "the knowledge" – a three-year entry test into the trade over 468 London routes.

The government is preparing a statement before Christmas, following last year's consultation paper which questioned whether drivers' knowledge needed to be so exhaustive.

The report recommends that London minicabs should follow regulations in other parts of the country, where both taxis and minicabs are licensed. Safety standards would be set at a minimum for minicabs, which would not be allowed to carry the lighted taxi sign.

The proposals are the latest in a series of attempts to shake up the cab trade. In 1989, Mr Michael Portillo, then transport minister, shelved plans to license private hire after a campaign by taxi drivers.

London taxi licences have been a contentious issue since 1654, when Oliver Cromwell rewarded loyal soldiers of his New Model Army with licences to run London's Hackney Carriages. The licensing authority, the Fellowship of Master Hackney Coachmen, disbanded in protest at the weakening of its monopoly to pick up the public from the streets.

Sky explores TV news venture with Reuters

By Raymond Snoddy

British Sky Broadcasting is in detailed talks with Reuters, the news and information group, over the possibility of a partnership between Sky News and Reuters Television.

Reuters, which has been expanding its broadcasting interests, appears to have taken over the running from Independent Television News in the long search for a partner for the lossmaking Sky News.

For some time Mr Sam Chisholm, BSkyB chief executive, has been looking for a way of reducing the £30m a year cost of the 24-hour television news service while at the same time improving quality.

Talks with the BBC several years ago foundered on the issue of who should have editorial control.

In the past few months BSkyB, a consortium of which Pearson – owner of the Financial Times – owns 17.5 per cent, had extensive talks with ITN involving Mr Chisholm; Mr Michael Green, chairman of ITN; and Mr Rupert Murdoch, chairman of News Corporation, holder of the biggest stake in BSkyB. The possible deal involved ITN providing Sky News under contract.

The emergence of Reuters as the preferred partner is ironic because Mr Green, chairman and chief executive of Carlton Communications, is also a non-executive director of Reuters.

It is not clear what relationship is likely to emerge between BSkyB and Reuters, but it is likely to go beyond a news supply agreement. A full contracting-out of Sky News has now been ruled out.

The discussions centre around a partnership or possibly even a merger between Sky News and Reuters Television. BSkyB's emerging preference for Reuters is based on the depth of its international resources.

A deal with Reuters could lead to a rekindling of BSkyB's ambition to make Sky News more international, possibly taking a variant of the channel to the US.

UK NEWS DIGEST

Gas chairman backs 75% rise for executive

The 75 per cent salary increase awarded to Mr Cedric Brown, chief executive of British Gas, leaves him underpaid against many holders of comparable jobs in industry, Mr Richard Giordano, chairman of the former state utility, said yesterday.

He says in a letter to the Financial Times that the £205,000 ($336,200) increase was necessary to bring British Gas pay scales into line with the "median of a large sample of UK public limited companies". He added that, before the increase, Mr Brown was the most underpaid senior executive in the company, earning less than the finance director.

The letter marks the first top-level support from fellow directors for Mr Brown, who was at the centre of a storm after news of his salary increase was leaked last week. Mr Giordano says: "The board has decided that he is right man to lead British Gas and we fully support him." It is understood that Mr Brown intends to keep all of the increase. Last week he was reported to be considering handing part of it back.

Mr Giordano said shareholders had nothing to gain by underpaying Mr Brown. "If they believe that the board, particularly the non-executives, are too cosy with management and undemanding or that they lack diligence, they are wrong."

Letters, Page 12

24-hour opening for shops

Shops will be allowed to open 24 hours a day from Monday to Saturday for the first time from today. Shops were previously required to close at 8pm, with an option to open until 9pm on one night a week between Monday and Saturday. All shops will now be allowed to open 24 hours from Monday to Saturday.

The change comes less than four months after the Sunday Trading Act made Sunday opening legal for all shops in England and Wales for the first time. Smaller stores are allowed to open all day on Sundays, with larger stores limited to six hours. 7-Eleven, the convenience store group, said yesterday it was "delighted" the government had recognised the importance of 24-hour shopping.

P&G rapped in 'soap war'

The Advertising Standards Authority is to censure Procter & Gamble over advertising claims in its "soap war" with Unilever, according to a leaked draft of an adjudication from the authority. While the draft's focus is the "knocking copy" produced by Procter attacking Unilever's Persil Power soap powder, the document also contains damaging criticism of Persil Power itself. The draft describes the product as "more harmful than any other detergent on the market".

The ASA said yesterday that the draft was "still very much under discussion and subject to further change". Newspaper advertisements placed by Procter in July stated that "only Ariel [Procter's soap powder] washes so clean yet so safe". The advertisements also contained warnings that the manganese "accelerator" ingredient, which is at the centre of the controversy about Persil Power, could leave residues on clothes and continue to cause fading, even if users switched to another soap powder.

Design centre for Rover

Rover, the leading UK vehicle maker, is to invest £25m to build a new design and engineering centre at Gaydon in the English Midlands. From 1997 the Gaydon site will become Rover's main engineering centre and the location for all its new vehicle design and development operations with a workforce of almost 2,000.

The 900-acre site, a former Royal Air Force base, was acquired in 1979 by Rover, which is now a subsidiary of BMW of Germany. It already includes Rover's main vehicle testing facilities with 36 miles of proving roads and test track.

Fans hail new Beatles album

Fans queued in the early hours of yesterday as the first new Beatles album for 24 years went on sale. They waited for three hours outside one London record store to be the first to get their hands on a copy of The Beatles: Live At The BBC.

The record contains 56 songs from 39 radio shows made between 1962 and 1965. Many of the songs were never commercially recorded. They were found in the BBC archives by Radio 1 producer Kevin Howlett while he was researching a documentary. He said of the discovery: "It was like finding Tutankhamen's tomb." The Beatles are pictured above with their favourite newspaper in an item from a retrospective exhibition of Norman Parkinson's work which opened yesterday at London's Hamilton Gallery.

Music royalties investigated

The Monopolies and Mergers Commission is to investigate allegations of unfair practices and administrative inefficiency at the Performing Right Society, the organisation that collects royalties for composers and song writers. The investigation follows complaints from composers to the Office of Fair Trading, which has the power to refer industries to the commission, about the society's administration fees. There have also been complaints that its method of royalty collection is unfair to less successful composers.

The society, founded by a group of music hall composers in 1914, has a monopoly of the collection of royalties for musical performances in the UK. It now raises more than £150m ($246m) in royalties each year for its 26,000 members. Royalties are collected for radio and television broadcasts, as well as live performances and the use of music in public places such as pubs and shops.

The society has been under fire from the music industry for some time. U2, the successful Irish group, began legal proceedings earlier this year to challenge the society's right to collect royalties for live performances. Mr Paul McGuinness, U2's manager, yesterday welcomed the commission's investigation. He described the society as "superlatively inefficient", claiming that U2 often waited for four years to receive royalties on songs performed outside the UK.

Plant trees, farmers are told

Farmers in some areas could earn up to £300 ($492) a hectare more from forestry than from agriculture, says a study from the Forestry Industry Committee of Great Britain. The committee, which represents timber processors and private woodland operators, highlights south-west England and a section of the country running north from Cheshire in the north-west almost to Scotland as the most cost-effective regions for converting farmland to forests.

Its conclusions are based on an analysis of crop gross margins on a range of land classes and soil types.

TECHNOLOGY

Printer, copier and fax

A second generation of combined computer printer, photocopier and fax systems is on its way. Hewlett-Packard, the US computer maker, has launched an OfficeJet system for the home, home-office and small-business user.

It is the first time a leading manufacturer has produced an inkjet multifunction printing system. Previous efforts have been built around more expensive laser printer technology and have often been more expensive to buy than purchasing the components separately.

The HP OfficeJet was launched in North America last month and will be released in Europe early next year. It is expected to sell for less than £1,000 (it sells in the US for slightly less than $1,000) and offers the ability to provide high-resolution printed output, to send and receive faxes and to photocopy.

The price is still slightly more than the cost of buying the cheapest equivalent components individually, but Hewlett-Packard is hoping that users will be willing to pay a premium for a device that the company claims is more than the sum of its parts.

Hewlett-Packard is using the same inkjet printing technology on the HP OfficeJet as on the company's popular DeskJet inkjet printer range. It promises 600 by 300 dot per inch printing resolution and uses HP's Resolution Enhancement technology – which is designed to vary the size and placement of the dots produced by the printer to smooth curves and edges on individual characters.

The OfficeJet has a 24-page memory that enables it to store up to 24 pages of faxed material even when it runs out of paper. It can print out stored pages while receiving other pages.

When used as a photocopier, HP says, the OfficeJet is suitable for small printing jobs – and it has document reduction capabilities.

Geof Wheelwright

Gaetan Coston

Alan Ward: 'The result of an object approach is that we are getting re-use at all levels, which is something we did not expect'

A radically different system was needed for new Inland Revenue tax-collection methods, writes **Phil Manchester**

Speeding up tax-collection

One persistent theme in the search for techniques to make software easier to build is to make its production more like a traditional engineering activity. Software applications are increasingly "assembled" from a set of components – operating systems, database software and applications packages – rather like a car or an aeroplane.

Traditionally, software has been built in a haphazard manner with more emphasis on the technology than on the business problem. But "object-oriented" design aims to switch the emphasis back to the business.

The UK's Inland Revenue found itself using an object-oriented approach almost by accident when its development team set about designing a system to process corporate tax collection, following legislative changes. The new rules allow UK companies to make their own tax assessments and pay accordingly. Random audits police the system.

The Corporation Tax (CT) Pay and File system, in operation at the Revenue since October last year, not only administers the new tax collection rules, but forms the basis for another phase of tax change in 1996, which will bring about 10m self-employed UK tax payers into the self-assessment system. By using object-oriented design, the development team based in Telford in the north of England has been able to plan the re-use of software modules in future systems.

Although the details of object-oriented design can be complex, it starts from a simple idea. It views the world as a set of self-contained "objects" that define both the data and processes needed to make the object "work". An employee payslip, an invoice, a sales ledger or even an entire factory can be viewed as objects in this way.

Each object is like a sealed black box recorder in an aeroplane. It can be activated – but its internal workings are hidden from view. If you want to print a payslip, for example, you send the "payslip object" a message. It contains all of the data it needs to format and print itself.

Collection of corporate tax, like other Inland Revenue activity, is currently undergoing changes akin to a business re-engineering exercise. The change is comparable, for example, to a large business moving to self-billing for its purchasing operations.

The new information technology system is, therefore, radically different from the one it replaces. Previously, UK corporation taxes were collected after a complicated, time-consuming assessment by the Inland Revenue and an equally complex collection procedure.

All data processing was performed in batches after tax returns, payment receipts and so on had been entered into the central tax database. This batch processing system was slow, labour-intensive and required an expensive technology support structure.

The introduction of self-assessment aims to reduce the cost of collecting taxes – by cutting staff and technology costs. At the same

SOFTWARE AT WORK

time, the batch-processing system was replaced with an on-line system, which gives Inland Revenue staff instant access to data. "The new system is on-line rather than batch and aims to cut the time it takes to process changes. It used to take three or four weeks with the batch system. Now we can offer a better and more cost-effective service with the on-line system," explains Alan Ward, a senior software engineering consultant seconded to the Inland Revenue from computer manufacturer ICL.

Ward explains that the CT Pay and File system, which handles the Revenue's 1m corporate accounts, currently supports a potential 14,000 users, although only about 4,500 of the Revenue's staff are working directly on the system operating the corporate tax accounts.

The system operates across a national network of personal computers running Microsoft's Windows 3.1 and an ICL mainframe computer that manages a massive 160 gigabyte tax database.

"It was not part of the original decision to use object-oriented design," says Ward. "Our priorities were to develop a new architecture to support the application and to increase the amount of software we could re-use. We wanted to build a system where the application was integrated at a high level – so we could re-use large parts of an application in later development."

He acknowledges that object-oriented design has been an important element in the success of the existing application. It also promises to lay a foundation of re-usable code for the next phase of development.

This brings long-term benefits. Elements of a design can be recycled on later systems. The Telford development team is using recycling – or "re-use" – to help build the expanded system for self-employed taxpayers due to go live in 1996-97. High-level objects – or software components – are being transferred from the CT Pay and File system for use in the new one.

"The object approach forces you to design software in modules. The result is that we are getting re-use at all levels, which is something we did not expect," says Ward.

The Inland Revenue has found that object-oriented design provides a strong base for applications software. It introduces engineering discipline and brings long-term benefits like re-usable programs. It also helps focus attention on business needs rather than technology.

Standard rules of procedure

Alan Cane on the resolution of a row in Europe's telecoms industry

A dispute over technical standards that has been threatening to split the European telecommunications industry was resolved last week when a compromise policy was agreed after more than five years of bickering.

Almost the entire membership of the European Telecommunications Standards Institute (Etsi) voted for the new policy, which ensures that companies will not have to give up their rights to their own proprietary technology unknowingly as part of the standards-setting process.

As a consequence, the Computer and Business Equipment Manufacturers Association of America, representing large US companies including International Business Machines, Motorola and Digital Equipment, has withdrawn a complaint filed with the European Commission.

IBM said yesterday: "It is a balanced and satisfactory solution for everyone concerned." Frede Ask, deputy director of Etsi with responsibility for legal matters, said he was pleased that an agreement had been reached: "I was always in favour of the abandoned policy, which I believed was fair, but as some of our members were unhappy, it was a clear indication that the policy had to be changed."

The dispute centred on the way telecommunications standards are set. Etsi is one of three officially recognised European bodies responsible for setting standards. Established by Brussels, it is composed of telecoms operators, national governments, equipment manufacturers, information technology companies and consultancies. US companies with European interests can be members on the same terms as European-owned concerns, but when it comes to voting, national governments and national telecommunications organisations are in the majority.

Standards in telecommunications, as in any technical area, are vital to progress. Setting industry-wide standards promotes competition, encourages innovation, cuts costs and lowers prices. Europe's rag-bag of standards is in urgent need of rationalisation. Yet a standards policy was approved by Etsi last year which proved impossible to implement.

Intellectual property rights (IPRs) – the rights of a company to own its own technological advances – proved the sticking point. Standards involve sets of operational rules that can involve products and processes from a variety of companies. These companies own the IPRs in their products and have frequently invested millions in their development. Yet if progress is to be made, they are obliged to agree to give up their IPRs so new standards can be developed and broadly licensed. Given adequate compensation, most companies would agree this reasonable.

Yet the Etsi proposal last year said that a company had just 90 days to decide whether to withhold permission for a particular IPR to become part of a standard. If it did not withhold permission, the technology became available by default for licensing to Etsi members and non-members.

IT companies, which see their competitiveness linked to their stock of IPRs, were outraged. Also, such is the rate of technological progress that large companies, in particular, may not know in detail what IPRs they own or which ones may be involved in standards Etsi is working on.

The compromise takes a quite different tack. Etsi has to approach a company to request permission to use a piece of intellectual property it owns in developing a standard. The company then has three months to decide whether to give permission. The new policy says: "IPR holders, whether members of Etsi and their affiliates or third parties, should be adequately and fairly rewarded for the use of their IPRs in the implementation of standards."

If a company refuses to make its intellectual property available, it is up to Etsi to find another way round the problem, either by investigating other technologies or taking a different approaches.

PEOPLE

Humer heads back to Switzerland

Franz Humer, one of the top board directors at Glaxo, Europe's biggest drugs company, has resigned suddenly to "take up a senior appointment in the international pharmaceutical industry next year".

Glaxo says Humer, a Swiss citizen, plans to return home to Switzerland. Meanwhile, Roche, a Swiss drugs company, would not comment on suggestions that Humer might take the job of head of its Pharma Operations subsidiary. That post became vacant on November 14 when Peter Simon departed to pursue private interests.

Humer made his intention clear to Glaxo a week ago. Although on a rolling three-year contract – which prevents him from taking a job with a rival company for six months – he leaves on December 1 without any severance payment. Humer had been a main board director of Glaxo since 1989 and in March 1993 became the director responsible for research and development, commercial strategy, manufacturing and Latin America.

He joined Glaxo in 1981 as area controller for southern Europe and moved through several posts to become managing director of Glaxo Pharmaceuticals in the UK in 1987.

With a strong reputation in marketing and selling, Humer had been in the frame to land the top job at Glaxo after Ernest Mario's departure as chief executive in March 1993.

But the position went to Sir Richard Sykes, the research and development director.

Glaxo said yesterday that it would be examining several options for replacing Humer or changing the structure reporting to that role. But the company said strategy and development would "not be affected in any way" by his departure.

Glaxo's shares fell yesterday by 8p to 617p. *Daniel Green*

■ BOC, the industrial gases group, has moved quickly to plug the gap left by Phil Aiken's surprise move to be chief executive of BTR Nylex in Australia. Barry Beecroft, 48, who has been with BOC for 26 years, has been appointed managing director of the group's European gas business, which has annual sales of over £500m.

Beecroft, a chemical engineer, is currently regional director of BOC's gas business in the South Pacific and managing director of its Australian gas operation. He was formerly operations director of BOC's UK gases business.

■ Richard Mitchell, research and development director, has been appointed to the board of DOMINO PRINTING SCIENCES.

■ Trevor Harrison, formerly sales and marketing director of Alvis Vehicles, has been appointed sales and marketing director of VICKERS Defence Systems.

■ Philip Duncan (below), formerly chief executive of Castrol Overseas, has been appointed md of Simoniz International, part of BURMAH CASTROL.

■ David Brimblecombe, formerly a director and company secretary of Yorkshire Chemicals, has been appointed deputy company secretary of YORKSHIRE WATER.

■ William Drury has been appointed technical director of CONTROL TECHNIQUES.

■ Carl Robinson, formerly md of Watson Smith, an IMI subsidiary, has been appointed md of IMI Norgren's fittings and accessories division, part of the Fluid Power Group.

■ Roland Weiss, md of UNITED DISTILLERS European duty free division based in Hamburg, has been appointed marketing director of the European region, based in London.

■ Stuart Strathdee, md of its international division, has been appointed to the board of TATE & LYLE.

Roger Bright: investing his authority in watchdog

Roger Bright, 43, a former high-flying civil servant in the Department of Environment, is joining the new Personal Investment Authority, the watchdog charged with protecting the private investor, as director of operations and finance.

Bright's appointment, which takes effect next March, nearly completes the PIA's new top management team under Collette Bowe, the chief executive. Bowe was recruited from the Securities and Investments Board, as was Stuart Severn, head of policy development at the PIA. Stuart Wiley, head of legal services, comes from Lautro.

However, the PIA still needs to find a head of member relations to replace Kit Jebens, 62, who retires at the end of the year. Jebens has been chief executive of Lautro, whose regulatory powers are being absorbed by the PIA. Jebens is joining Fishburn Hedges, a public relations consultancy, to help its clients deal with regulatory bodies.

Bright joins the PIA from the Housing Corporation where he has been deputy chief executive (finance and administration).

Before joining the Housing Corporation in 1991, Bright spent 18 years at the Department of the Environment and had been principal private secretary to two secretaries of state – Nicholas Ridley and Chris Patten. His last job was heading the local government review team investigating the financing and structure of local government.

Bright replaces Cyril Lanch who is retiring after seven years with Fimbra and subsequently the PIA. Bright is the second deputy chief executive of the Housing Corporation to quit in four months.

Greg Lomax, deputy chief executive (operations) left in August to be chief executive of Thamesmead, a former GLC estate in south east London. He is being replaced by Pam Alexander, 40, another DoE veteran, who joins in January.

Bright's post, which is being retitled deputy chief executive (regulation and finance) will be advertised shortly. *William Hall*

Guinness: Irwin's move on record

Christopher Irwin, the first chief executive of BBC World Service Television, has been appointed managing director of Guinness Publishing, the book publishing arm of the drinks group.

Irwin, 45, has spent most the past 19 years working for the BBC and was one of those involved in the early attempts to get satellite broadcasting launched in the UK. Later he advised Pearson, owner of the Financial Times, on its move into British Satellite Broadcasting, one of the forerunners of BSkyB.

The new managing director of Guinness Publishing was a key figure in the founding of BBC World Service Television, which is now expanding around the globe. Irwin has been on "gardening leave" from the BBC since May when his job disappeared in a reorganisation of all the overseas activities of the Corporation carried out by Bob Phillis, the BBC deputy director general.

A settlement was finally reached between Irwin and the BBC last week on what are believed to be amicable terms.

Guinness Publishing, whose most important title is the Guinness Book of Records, says part of Irwin's role would be to take Guinness Publishing into the "new media" although the company has already published a CD-ROM of the Book of Records. The Guinness publishing arm produces dozens of other titles – mostly spin-offs from the Book of Records. *Raymond Snoddy*

Smoking issue smoulders

Victoria Griffith reports on a controversial US proposal

A US federal government proposal to limit smoking in the workplace could soon make private houses, clubs, cars and the outdoors the only places people can light up, and would make cigarette marketing even more difficult for the already embattled tobacco industry.

Hearings on the far-reaching proposal by the Occupational Safety and Health Administration (OSHA) will wrap up at the end of this month. Already, sparks are flying over the possibility of sweeping changes. Cigarette maker Philip Morris refused to testify at the OSHA hearings this week after accusing the agency of bias against the tobacco industry.

The proposal could mean that smoking in any taxi, hotel room or restaurant would be forbidden. Even cigarette and tobacco companies would have to post "No Smoking" signs in their offices.

According to the proposal, setting aside a separate room for smokers within an office building is not enough. The room would also have to be equipped with its own ventilation system.

Even if a restaurant sets aside an all-smoking lounge, for instance, management could not ask waiters to enter the area. Similarly, a conductor could not be forced to walk through the smoking car of a train to collect tickets, and a housekeeper could not clean up a hotel room in which someone had been smoking.

The speed with which the anti-smoking movement has snowballed has caught many by surprise. Yet OSHA says it is just trying to protect US workers. "OSHA's mission is to save lives, prevent injuries and illnesses and protect the health and safety of America's workers," says Joseph Dear, assistant secretary of labour for OSHA. "We believe the evidence supports our conclusion that air contaminants present a significant risk to employees in indoor environments."

The tobacco industry has been trying to garner opposition to the OSHA proposal through a nationwide advertising campaign. "This is nothing more than an anti-smokers' pipe-dream," says the Tobacco Institute. The industry argues that proposals would outlaw smoking in private homes, since a carpenter, repairman, or cleaner could not be asked to enter the house.

OSHA says this is simply not true. "The agency is not proposing to regulate smoking in private homes or private vehicles and is not banning smoking," says Dear. "The objective of this proposed rule is to protect non-smoking employees from the effects of passive smoke."

Opposition is fiercer than OSHA may have anticipated, however. The agency has received thousands of protest letters, a few so threatening that OSHA handed them over to the Federal Bureau of Investigation.

With or without the OSHA proposal, the trend in the US is for more smoking restrictions. Vermont and California have strict limitations in place, and dozens of municipalities have banned smoking in all public buildings. The new OSHA proposal, however, means cigarette restrictions would be put in place much faster, and with more far-reaching consequences, than most observers imagined.

The restaurant industry is one of the most outspoken opponents of the proposal. The National Restaurant Association estimates that it will lose \$18bn a year in revenue if the smoking ban is enforced. "People will still go to restaurants, but they won't have the espresso, dessert or drink they would usually enjoy with a cigarette," says Robert Harrington, director of technical services for the Association. "That means they won't be spending as much money."

The furore over the proposal will probably guarantee that smoking in the workplace remains a hotly contested issue. Tobacco industry advocates hope the new Republican Congress will prevent OSHA from moving forward with its proposal by enacting a law protecting smokers. However, anti-smoking lobbyists point out that such a stance could be politically dangerous, as the tobacco industry is, at the moment, extremely unpopular with voters.

Total coverage: full-wrap ads on buses have proved eye-catching in the US and may appear on London Tube trains

Moving designs

Lisa Bransten on plans to shake up transport advertising

London Underground carriages may soon be completely wrapped in advertisements designed to startle and impress consumers. William Apfelbaum, head of the US company that now runs the newly privatised advertising division of London Transport, aims to convince authorities it would be both safe and profitable.

After 25 years in transport advertising, there are few things the chairman and chief executive of New York-based TDI (Transportation Displays Incorporated) likes better than putting ads on buses and trains. Now Apfelbaum has nearly all of London to focus on since London Transport last August sold London Transport Advertising to a 50-50 joint venture between TDI – which manages the venture – and Hambros Group Investments, a subsidiary of Hambros Bank Group.

London is only the beginning. The consortium is expected to announce today that it has acquired the advertising rights for buses in at least five more UK cities in the south-east of England, the Midlands and northern England. Ultimately, the group would like to have a presence in the rest of the UK.

Transport advertising is already taking on a new look in London. There has been a rush of advertising from US companies with which TDI does business in the US – where it is the biggest transit advertising company. Popping up increasingly on London buses, trains and Tube stations are ads for fashion lines such as DKNY and Calvin Klein.

Apfelbaum would like to wrap buses and underground carriages with one advertisement. Such total coverage has been extremely eye-catching in the US, where, for example, TDI dressed a line of buses as sharks complete with fin on top to promote a local sports team. Such full wraps have been carried out on London buses, but never in the Underground.

He is out to capture consumers' attention and sees no better place than the Tube, which he says reaches more relatively wealthy people than any other medium. As soon as he has an advertiser willing to take on the cost, he will propose a fully-wrapped carriage to transport officials. The idea is not new, but this time industry observers and transport authorities believe TDI is capable of carrying it out.

Michael Horne of London Underground says: "This isn't the first time we've heard these ideas, but Apfelbaum has put a lot of effort into putting forward a structured deal," he says. "We will be looking at his proposals very carefully and we hope we find a way of doing a deal. Personally, I'm optimistic."

Sales are up around 20 per cent at LTA in just the first three months since privatisation, says Jeremy Male, the company's new managing director. The increase is good news for the consortium which agreed to pay London Transport more than £100m over the next six years as part of its bid for LTA.

Previously, LTA generated sales of about £23m a year but observers expect the TDI consortium to do rather better than that. One of Apfelbaum's first moves was to increase the amount that sales staff could earn from commission.

"There did not seem to be a motive for profit in this company before, because they were just a division of a big governmental body," he says. "If they made money it just disappeared, they didn't know where the money went."

The commission strategy worked well for Apfelbaum after he was brought in by an investor group in 1989 to salvage TDI. Company officials say 1994 should be a record year for TDI.

Frances Dickens, head of posters at Zenith Media, the UK's biggest media-buying company, senses new energy at LTA. Before the privatisation LTA was "terribly staid. If it wasn't in the rule book they wouldn't even think about it", she says.

The TDI consortium, in contrast, "brings a refreshing commercial way of doing business. They are prepared to grow the business and listen to what advertisers want".

Openings for foreign retailers have improved, writes **Emiko Terazono**

Time to set up shop in Japan

For years, foreign retailers eyeing up Japan have been thwarted by high costs, investment restrictions and an intricate web of wholesalers and distributors.

But a number of factors are opening up new opportunities for overseas chains, notably consumer taste for discounts, own-label products and imported goods.

Toys R Us, the US toy chain, was one of the first foreign companies to move into Japan. But others, such as Marks & Spencer, the UK clothes and food retailer, The Gap, the US casual clothing chain, and Tati, the French clothing retailer, are considering entering the market.

Japanese consumers' enthusiasm for expensive brands has been diminished by the downturn in the economy and corporate earnings. Also, as more Japanese travel abroad they have begun to question the exorbitant prices back home.

Meanwhile, the sharp appreciation of the yen has lowered the price of imports, while stricter enforcement of antitrust law has eased the grip on retail prices of manufacturers and distributors.

Relaxation of laws restricting large supermarkets and retailers has further opened up the sector. This has weakened Japan's traditional retailers – both the small "mom-and-pop stores" and the upmarket department stores, which until recently have been protected by a multi-layered distribution system and old ties with the manufacturers. Many large supermarket and discount chains that have developed their own product sourcing and distribution routes have managed to shed their "cheap" image, and have become mainstream outlets in the sector.

All these developments offer new business chances for foreign companies, says McKinsey & Company, the business consultants. In a recent report* the firm points out that Japanese businesses that have been most severely hit are those with structural inefficiencies. Foreign companies with "tried and tested retailing skills" have much to contribute, either as partners for domestic retailers or as new entrants on their own.

Traditional Japanese retailers are not only bound by established relationships with suppliers and wholesalers; altering longstanding organisational and management systems is difficult. For example, many large Japanese department stores have modelled their personnel systems and organisation on manufacturers. While main profit generation occurs on the sales floor, many skilled and experienced managers are promoted to administrative tasks, rather than focusing on the sales floor.

Foreign players, says McKinsey, have the advantage of being well-placed to build relationships with suppliers from scratch, and design new ways of operating that are beyond domestic retailers with established ties and practices. They can also bring in new skills and systems in merchandising and product procurement as well as new retailing strategies.

Without experience and understanding of the Japanese consumer or the retail sector, it is essential to tie up with a Japanese partner, says McKinsey. But while the emphasis for newcomers to Japan has been to do things the Japanese way, McKinsey argues that relying on the Japanese partner's traditional skills and systems could cause problems for those trying to introduce new retailing expertise and ideas.

Toys R Us, for instance, which currently has 24 stores across the country, cracked the conservative Japanese toy retail market with its use of direct procurement combined with its store layout skills. However, it did lack knowledge of running a chain in Japan, and so tied up with McDonald's Japan, the fast food group.

"There is no need to be 'Japanised'," says Hirokazu Yamanashi, consultant at McKinsey's in Tokyo. "It is important not to fall in the same trap that the Japanese players have found themselves in," he warns.

**The Emperor's New Stores by Tatsuo Ohbora, Kanoko Oishi and Hirokazu Yamanashi. Tel: Tokyo 81-3-5562-2100*

هكذا من الأصل

Cinema/Nigel Andrews

Sugar and schmaltz

MIRACLE ON 34TH STREET (U)
Les Mayfield

CORINNA, CORINNA (PG)
Jessie Nelson

CRONOS (18)
Guillermo Del Toro

TO DIE FOR (15)
Peter Mackenzie Litten

Can we sue Hollywood for abducting one of our leading philanthropists? We refer to the disturbing case of Lord Richard Attenborough.

For years Lord R has been the white-whiskered Father Christmas of British cinema. Find a selfless, hard-working movie committee anywhere in the land and he will be on it. Watch a movie awards ceremony and he will be holding out his ermine-fringed hat, soliciting help for that frail, lovable, disadvantaged thing called the British film industry.

So what is he doing playing Santa Claus for the other side in *Miracle On 34th Street*? Short answer: making the movie bearable. Or more so than this seasonal Hollywood tear-jerker would be without him. Attenborough is the only class act in this remake of the 1947 *schmaltzfest* about a New York department store Santa who gives everyone a Christmas to remember.

Kris Kringle, as our hero is called, materialises outside the store just when the personnel manager needs him. The previous Santa has been falling off his sleigh under the influence of too much Kentucky bourbon. Might Kris, we are encouraged to ask as the plot unfolds, be the real Mr Claus? By final reel he has spread cheer, patted children's heads, answered testing questions on the geography of the North Pole and made everyone believe in peace, goodwill and reindeers.

Attenborough has bonhomie written all through him. The make-up people have been at his whiskers, curling the white moustache and giving a vertical frisk to the white eyebrows. He looks like God after a bath and brush-up. He cracks a lordly whip at the reindeer; shows a beaming patience with the icky-eyed little girl he befriends who takes up so much screen time. (She is the daughter of the store's publicity director Elizabeth Perkins). And he looks nobly harrowed in the climactic trial scene, when the judge must determine if he is Santa or a fraud.

If only the film around matched its star. Written with more winsomeness than wit by John "Home Alone" Hughes, it is is directed by Les Mayfield, who used to make tie-in plugumentaries about other people's films (*Back To The Future, Who Framed Roger Rabbit*). *Miracle On 34th Street* is a tie-in puffumentary for Christmas: an on-location hype spree in snowiest Manhattan, filled with a glutinous glow that Yuletide addicts may find appealing but no one else will.

If Attenborough makes *Miracle On 34th Street* almost watchable, Whoopi Goldberg does the same for *Corinna, Corinna*. Another resistible child is at screen centre. Little Molly (Tina Majorino) has just lost her mother, and her father (Ray Liotta) cannot cope with solo parenting as well as with a high-pressure job writing advertising jingles.

It is hard enough finding a rhyme for "pudding" without having to make the things as well. So Goldberg enters: everyone's ideal cook/nanny. Soon she is making puddings *and* finding a rhyme for them ("puddin'"/"should'n'"), and inserting lovestruck stars in Liotta's eyes. But – political subtext time – we are in the 1950s, so can the couple overcome racial prejudice? And will little Molly, amid her dark-complexioned in-laws-to-be, grow up to be a good Sixties liberal?

Writer-producer-director Jessie Nelson clearly grew up by having eight spoonfuls of sugar every day on her cornflakes. As music swirls and hearts climactically melt, a sweet tooth is not enough for this film: you need a full set. But do marvel at Miss Goldberg – at that whimsy-free presence with its brown, croaky, street-smart voice, its slow-burn reactions, its ironising eyes that torpedo sentimentality or pretension even as they come towards her.

More perversely scheduled for Christmas – but welcome in the circumstances – is the Mexican horror film *Cronos*. At its centre is a present from Hell: a golden bauble invented by a 16th century alchemist and now coming into the hands (literally, with retractable steel pincers piercing his palms when he holds it) of a modern-day antiquarian (Federico Luppi).

But he puts up with the pain. For the gruesome thing has an insect inside which filters and rejuvenates the victim's blood, thereby conferring immortality. Cue the film's chase sub-plot, with our hero pursued through midnight streets by the plug-ugly henchman of a dying millionaire (ex-Bunuel veteran Claudio Brook) who also covets eternal life.

Guillermo Del Toro directs as if Borges had visited him in a dream and Hieronymus Bosch had arrived at the same time in a nightmare. Gothic congestion is the style. The first half, in which eerie leitmotifs pile up and plausibility waits on mystery, is spellbinding. Cameraman Guillermo Navarro's silken chiaroscuro puts the romance into necromancy, while the philosophy-prone dialogue – Toro himself wrote the original script – has a mad ingenuity. Insects are God's chosen species, says the millionaire: "Christ walked on water. So does the mosquito."

Only near the close do we fall into the dull accounting process of 'explanation' and the routine modern-dress horror movie's search for novelty locations. (Final showdown is around a giant neon sign atop a skyscraper roof). But *Cronos* is still, by a tall mile, the best film of the week.

To Die For is a gay comedy-weepie gauchely styled after *Ghost* and *Truly, Madly, Deeply*. Mark (Ian Williams), after dying of Aids while looking strangely healthy, returns to haunt his lover (Thomas Arklie). Like the frequently returning hero of *Cronos*, he is dead but has no talent for lying down. But unlike him he is dull, winsome company.

Richard Attenborough: the only class act in this remake of 'Miracle on 34th Street'

Dorrell delivers from a distance

So Stephen Dorrell came good. In the few months since he took over as heritage minister this former Treasury apparatchik has kept a low profile, avoiding operatic and theatrical first nights, even asking his staff to be more circumspect about accepting cultural freebies. When he did appear above the parapet he talked about tourism and Huddersfield. The arts world was worried.

But in the Budget Dorrell delivered. The prime minister wanted to confirm his pledge that the National Lottery would not be used as an excuse to cut cultural funding. The Arts Council got an unexpected £5.1m increase, and there will be less talk of arts companies closing.

Dorrell is different from past arts and heritage ministers in being wary of going native. "I'm more interested in expanding the arts economy rather than drawing attention to my own enthusiasms. The department suffers from being seen to be too closely connected with individual arts activities", he said yesterday. The commitment to subsidy should be taken for granted. Dorrell wants to act as a catalyst to draw in outside cash.

There were three examples in the Budget. An extra £750,000 for the Business Sponsorship Incentive Scheme should attract £1.5m from arts sponsors; the pools promoters have been persuaded to maintain funding the Foundation for Sport and the Arts, which means another £20m plus a year; and new money for the British Tourist Authority must bring more visitors to London's cultural shrines. He is now looking at ways to attract outside money to the arts.

With the Budget out of the way Dorrell can concentrate on the role which enables him to make a greater mark on the nation than any government minister in history: his chairmanship of the Millennium Commission, with its anticipated treasure chest of £1.6b to be spent by the end of 2000.

Dorrell is looking for the big, all embracing, idea. So far he has scented two – improving the natural environment; and using science for social rather than business purposes. It is obvious that neither covers the British Museum, the Tate, the South Bank Centre or the Cardiff Bay Opera House.

He does not discount arts and heritage projects, but he is steering these expensive cultural structures towards the arts and heritage lottery boards: and they are stressing their interest in helping the grass roots. The wider arts world might be warming to Dorrell; our museum and opera house directors may be looking rather ashen.

A.T.

Pop/Antony Thorncroft

Elton and Cyndi

Elton John is currently filling the Albert Hall for a prodigious number of nights: well, a man must when there is a new album (*Believe*) to promote. This is the new Elt, the scaled down, minimalist, version, both in production values (just a percussionist to share his stage), and personality. Gone are the Donald Duck outfits; the neon specs. Sure, he wears an orange PVC suit and his one party trick, playing the piano prone with fingers just reaching the keys, is a mild gesture for a man who used to kick his instrument to death.

Dropping the razzmatazz is no bad idea: it always seemed a way for Elton to hide an insecure personality behind layers of artifice. Now you get the man himself and he seems genuinely nice: diffident, keen to please, relaxed. And his accompanyist is Ray Cooper, who could make a garden hoe sound rhythmic.

If there is a problem it is the piano, which Elton plays very loudly, over-dosing on arpeggios and minor chords, the keys jangling under relentless muscle power. It endangers the subtleties in songs like "Sorry seems to be the hardest word" and makes the new album come across as plangent.

But this is a minor grouse. Elton ranges far and wide across 25 years of creativity and he does not refuse his fans the plums, even if he can only bear to play "Crocodile rock" as a ballad, which inevitably picks up speed. Well over two hours later comes "Candle in the Rain", a song which could have been written about him rather than Marilyn Monroe but which now, thankfully, seems a memory of a tumultuous past.

Madonna was a mistake: it should have been Cyndi Lauper. The lippie New Yorker with the "in your face" image, cheeky stage set, and politically incorrect songs like "Girls Just Want to Have Fun", should have consumed the 1980s like a hungry piranha. Instead the blonde from the boondocks got in quick and Cyndi spent her time managing wrestlers and finding God.

But you cannot tie an outrageous ego down and now she is back with a "Twelve Deadly Cyns" tour which is the current hot ticket. She made an impact at the Shepherd's Bush Empire. She needed to: the audience had been kept waiting, and standing, two hours, thanks to that ingrained insolence pop promoters manage to get away with.

But the very sight of this professional scream, with her flouncy tulle skirt and frightening white wig, which she removed to reveal a yellow Worsel Gummidge cut, was reassuring: here was eccentricity on the grand scale. As she passed like a parcel along the front row, squeaking out "What's going on", the place took off. Cyndi caught the mood and soon cast off her dress and top to reveal a bustier a French maid might die for, and way beyond the ambitions of most 41-year-olds.

Lauper is no fool. She has good material; a band that looks weird and sounds fine; and the back chat that clings after over 20 years in the business. This led her astray in the middle of her set with some serious statements – and a folk ballad – that killed the mood of joyous weirdness, but when you hold in reserve songs like "Time After Time" you cannot really *fail*.

Theatre/Alastair Macaulay

New England: hilarious but serious

In *New England*, Richard Nelson has written a play at once brilliantly accomplished and repulsively artificial. Every word, every scene, makes its contribution to the whole. And not a word, not a scene, rings true.

Nelson is perhaps the most eminent of the several American playwrights who now have the world premieres of their plays take place in London. *New England*, set in America today, covers the events of one weekend, starting almost at once with the onstage suicide of Harry, before the very eyes of his cohabitrix, Alice. Harry's children and brother promptly arrive. None of them know Alice well, and none of them have ever previously met Tom, who happens to have arrived as Alice's weekend guest some two minutes before Harry blew his brains out. What follows is as hilarious as it is serious. Oh yes, and all of them are English expats living in various parts of the US: hence the ironic title.

Nelson's brilliance is most evident in his ability to keep juggling several dissimilar objects in the air at once. In one scene, two of Harry's children and Tom do a jigsaw while airing various features of their own Americanophobia, while the floorboards overhead tell everyone in the house that Alice and Harry's brother Alfred have been having sex for the past hour. Meanwhile, all of them are trying to come to terms with Harry's suicide and are engaged artfully in preserving the illusion of fluent discourse while actually jumping from subject to subject. Here and everywhere else, Nelson can sustain separate currents of farce, misery, pathos, satire, irony, suspense, and cultural commentary.

But so what? Even in the four or five minutes before Harry becomes the late Harry, the lines have been ringing hollow: with the blatantly pseudo-naturalism of their construction, their self-interruptions, their contrived non-sequiturs, their awful theatricality. "Take it easy, this can't be easy" – spoken by Tom to Alice – is a minor, but typical, example of Nelson's cleverness. What is its effect? Less to reveal Tom's efforts to console Alice than to show us how admirable Nelson is in this little feat of putting two apparently contradictory sentences back to back in unbroken flow. Why is the jigsaw scene there at all? So that Harry's son Paul can utter lines (about apportioning jigsaw areas) "The sky is mine." Poor Chekhov, whose tragicomic influence is everywhere obvious, must be blushing in his grave; for Nelson's artfulness is not what he – Chekhov – had in mind at all.

Ironically, it is the theme for which Nelson is most renowned – Anglo-American relations – which he has crafted least successfully here. Most of the time, the occasional discussions that these English expats have about the American culture in which they live are mere set pieces that could be replaced by discussions of sex or traffic or art to the same effect (and most of the play could be happening in England anyway).

There are, we eventually see, two plot connections between Harry's suicide and his Americanophobe despair: the facts that he never told Alice that his wife was still alive in England until two months ago (and was still his wife) and that, only minutes before his suicide and before the play's start, he had reviled his daughter Gemma on the phone for planning to marry an illiterate gardener's assistant in New Mexico ("the barbarians are sweeping over us"). Nelson leaves these bombs hanging unexploded in the air. Which should be brilliant – except that the very way he shows the characters avoiding their significance is too neat.

Nelson is often funny. There are lines and stories that make us laugh aloud, and others at which we chuckle inwardly. On a larger scale, though, he creates characters and situations without a jot of freshness in them. Paul's French wife Sophie – humourless, possessive, coolly paranoid – is obviously introduced solely as a two-dimensional comic device. Yet which of the characters is three-dimensional? I could believe in none of them.

Peter Gill's production and the performances by the seven actors are exactly in harmony with the play: polished, fluent, amusing, contrived in their naturalism, and unconvincing. Angela Thorne is Alice; Selina Cadell and Diana Hardcastle are Harry's daughters Elizabeth and Gemma; Duncan Bell and Annie Corbier are Paul and his wife Sophie; David Burke doubles as Harry and his twin brother Alfred; Mick Ford is poor Tom. Possibly the play would seem more persuasive if it were played with more spontaneity, but that would be to swim against the current of its writing. *New England* reminds us of real life to the extent that a Fabergé egg reminds us of a hen's egg.

In RSC repertory at the Pit, Barbican Centre.

INTERNATIONAL ARTS GUIDE

■ BRUSSELS

GALLERIES

Musée d'Ixelles Tel: (02) 511 90 84
● Gainsborough to Ruskin: British landscape drawings and watercolours from the Morgan Library in New York. Includes paintings by Constable and Turner; to Jan 15 (Not Mon)

■ PARIS

GALLERIES

Grand Palais Tel: (1) 44 13 17 17
● Gustave Caillebotte: retrospective of the painter who belonged to the circle of impressionists; to Jan 9

Musée d'Orsay Tel: (1) 45 49 11 11
● Forgotten Treasures from Cairo: a rich collection of works by Ingres, Courbet, Monet, Rodin, Gauguin and others; to Jan 9 (Not Mon)

OPERA/BALLET

Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● La Dame de Pique: opera by Tchaikovsky. Director Valery Gergiev at 7.30 pm; Dec 1, 2
● La Khovanschina: opera by Mussorgsky at 7.30 pm; Dec 3, 4
● Sadko: Rimsky-Korsakov opera. Musical director Valery Gergiev at 7.30 pm; Dec 6, 7

■ BERLIN

CONCERTS

Berlin Philharmonic
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado play Strauss' Elektra at 8 pm; Dec 4

■ AMSTERDAM

CONCERTS

Het Concertgebouw Tel: (020) 671 8345
● Bernard Haitink: conducts the Royal Concertgebouw Orchestra, with soprano Karen Huffstodt, mezzosoprano Hanna Schwarz, and baritone Csaba Airizer to perform Schoenberg and Bartók at 8.15 pm; Dec 1, 2
● Moscow Philharmonic Orchestra: conducted by Vassili Sinaiski play Beethoven and Mussorgsky at 8.15 pm; Dec 6
● Nikolaus Harnoncourt: conducts the Royal Concertgebouw Orchestra to play Schumann and Bruckner at 8.15 pm; Dec 7, 8

Het Muziektheater Tel: (020) 551 89 22
● Die Fledermaus: by Strauss. Conductor, Ralf Weikert, production by Johannes Schaaf at 8 pm; Dec 6, 8

■ LONDON

CONCERTS

Barbican Tel: (071) 638 8891
● Gala Concert: London Symphony Orchestra with mezzo-soprano Marilyn Horne and conducted by Marvin Hamlisch. Includes Hamlisch's, 'The Anatomy of Peace' at 7.30 pm; Dec 1
● Grand Operatic Evening: National Symphony Orchestra with soprano Susan McCulloch under the direction of Martin Merry perform a variety of operatic pieces at 7.30 pm; Dec 3

Festival Hall Tel: (071) 928 8800
● Philharmonia Orchestra: with conductor Charles Dutoit and pianist Peter Jablonski play Tchaikovsky (piano concerto No. 2) and Shostakovich (symphony No.5) at 7.30 pm; Dec 6, 8

Queen Elizabeth Hall Tel: (071) 928 8800
● The Fall of Icarus: Multi-media event inspired by Bruegel's, 'Landscape with Fall of Icarus'. Belgian director Frédéric Flamand collaborates with Italian artist Fabrizio Plessi and composer Michael Nyman at 7.45 pm; Dec 2, 3

Royal Opera House Tel: 071 240 1200
● The Fairy Queen: by Purcell, adapted in 1692 from Shakespeare's, 'A Midsummer Night's Dream'. In this performance, the play is replaced by short mimed scenes in between the Masques at 6.30 pm; Dec 4

GALLERIES

Barbican Tel: (071) 638 8891
● A Bitter Truth: a multi-media exploration of changes in attitudes towards the first world war throughout its duration; to Dec 11

Royal Academy Tel:(071) 439 7438
● The Glory of Venice: a major survey of Venetian art in the 18th century; to Dec 14

Tate Tel: (071) 887 8000
● Turner Prize 1994: works by the shortlisted artists; to Dec 4

OPERA/BALLET

English National Opera Tel: (071) 632 8300
● Ariadne on Naxos: by Strauss. A Graham Vick production at 7.30 pm; Dec 1, 8
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 5.30 pm; Dec 3, 6
● The Magic Flute: by Mozart. Originally produced by Nicolas Hytner, John Abulafia directs this revival with conductor Alex Ingram at 7.30 pm; Dec 2

Royal Opera House Tel: 071 240 1200
● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Dec 2, 5, 8
● Mixed Programme: includes Fearful Symmetries choreographed by Ashley Page, and Symphony in C by Bizet, choreographed by George Balanchine at 7.30 pm; Dec 1; 6, 7
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 3 (2 pm)

THEATRE

Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; to Dec 29 (Not Sun)

Donmar Warehouse Tel: (071) 369 1732
● True West: by Sam Shepard, directed by Matthew Warchus. Michael Rudko and Mark Rylance (who swap roles on alternative nights) play two warring brothers at 8 pm; to Dec 3 (Not Sun)

National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Daniil Kharms. A Royal National Theatre and Theatre de Complicite co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 1 (7 pm), 2, 3 (2.15 pm), 5

National, Olivier Tel: (071)928 2252
● The Seagull: by Chekhov, in a new version by Pam Gems. Sat mat at 2pm at 7.15 pm; Dec.1, 2, 3 (2 pm)

■ NEW YORK

GALLERIES

Metropolitan
● Origins of Impressionism: 175 paintings by Parisian artists of the 1860's; to Jan 8 (Not Mon)

Museum of Modern Art Tel: (212) 708 9480
● A Century of Artists' Books: Exhibition of 140 books from some of this century's foremost artists; to Jan 24

OPERA/BALLET

Metropolitan Tel: (212) 362 6000
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 2, 8
● Lady Macbeth of Mtsensk: by Shostakovich at 8 pm; Dec 3, 7
● Madama Butterfly: by Puccini at 8 pm; Dec 1, 5, 8
● Rigoletto: Italian opera by Verdi at 8 pm; Dec 3

New York State Theater Tel: (212) 870 5570
● The Nutcracker: by Tchaikovsky, performed by the NY City Ballet. Tue-Thu 8pm. Fri 8 pm. Ring for other times and matinees; to Dec 31 (Not Mon)

THEATRE

Manhattan Theatre Club Tel: (212) 581 1212
● Love! Valour! Compassion!: latest play by Terence McNally (of Kiss of the Spiderwoman fame), directed by Joe Mantello. Sun: performance at 7pm otherwise at 8 pm; to Jan 1 (Not Mon)

Plymouth Theatre Tel: (212) 239 6200
● Passion: music and lyrics by Stephen Sondheim. Winner of four Tony awards at 8 pm; (Not Sun)

Walter Kerr Tel: (212)239 6200
● Angels in America: Tony Kushner's Tony-award winning play. Sun mat at 3pm. Wed., Thurs., Sat. at 8 pm; to Dec 4

■ WASHINGTON

CONCERTS

Kennedy Centre Tel: (202) 467 4600
● National Symphony Orchestra: conducted by Eiji Oue play Mahler and Tchaikovsky at 8.30 pm; Dec 1, 2 (1.30 pm), 3, 6 (7 pm)

GALLERIES

National Gallery Tel: (202) 737 4215
● Roy Lichtenstein: A survey spanning four decades of the American Pop artist; to Jan 8

OPERA/BALLET

Kennedy Centre Tel: (202) 467 4600
● George Balanchine Series: final of a three part exploration into the work of the choreographer. Led by prima ballerina Suzanne Farrell, at 6.30 pm; Dec 1

THEATRE

Arena Stage Kreeger Theater Tel: (202) 554 9066
● Misalliance: by Bernard Shaw, directed by Kyle Donnelly; to Jan 8

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Work begins on new wing

Nato is being urged to speed up its eastwards expansion, say **Bruce Clark** and **George Graham**

If Mr Warren Christopher, the US secretary of state, has his way, the family quarrels in the house called Nato will soon be replaced by a breezy, pioneering spirit as its residents set about adding a new wing to the battered but well-constructed old building.

After an outburst of unusual rudeness between senior politicians on opposite sides of the Atlantic over Nato policy on Bosnia, Mr Christopher will today urge his European counterparts to stop bickering and start thinking hard about opening the 45-year-old alliance to new members.

At a meeting of Nato foreign ministers in Brussels today, he will call for a sharp acceleration in the process of bringing ex-communist nations in central and eastern Europe into membership.

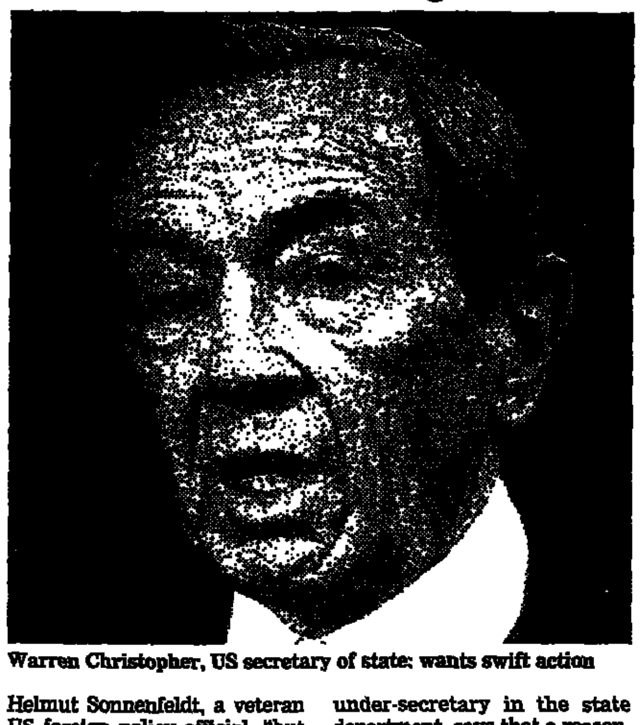
He is not expected to name countries, but those knocking loudest at the door are Poland, Hungary, the Czech Republic and Slovakia – known as the Visegrad states after the Hungarian town where they sealed a loose alliance.

Mr Christopher wants Nato's 16 members to hammer out the criteria and procedures for incorporating newcomers by next spring, or autumn at the latest. These would include the amounts they would have to spend on reconfiguring their armed forces to integrate them into the alliance, and how much help they could expect from Nato.

Once that process is complete, Nato should be able to make a detailed presentation of the results to potential members. If all goes according to the US plan, negotiations on a timetable for enlargement could start very soon after.

On the face of it, the notion of Nato "projecting stability eastwards" seems absurd. The US and its European allies have been engaged in a fierce transatlantic war of words following Serb advances in the north Bosnian enclave of Bihac. After a US effort to win support for massive airstrikes to defend Bihac found little backing, a disturbing note of recrimination has entered the atmosphere. Enthusiasm for Nato appears to be dying among US conservatives such as Senator Robert Dole, who have denounced European faint-heartedness in Bosnia.

In the past, the global Soviet threat concentrated the allies' minds and limited the intensity of their quarrels, but this is no longer the case. "This is obviously not the first crisis there's been in Nato," says Mr Helmut Sonnenfeldt, a veteran US foreign policy official, "but we don't have the ultimate discipline of the Soviet threat to push people into compromise."



Warren Christopher, US secretary of state: wants swift action

This week, however, there were signs that the current phase of the quarrel over Bosnia is dying down – at least temporarily. Even as legislators and opinion-makers in the US and Europe traded insults, the US administration has quietly moved closer to its European allies over some key questions on Bosnia.

Administration officials have acknowledged the impossibility of military solutions in former Yugoslavia. They have also praised the European contribution to UN ground forces, while offering to help with the messy business of withdrawing them if that proves necessary. The US has thrown its weight behind the peacemaking efforts of the five-nation contact group on Bosnia – the US, Russia, the UK, France and Germany – and will make proposals for an international conference on Bosnia when the group convenes tomorrow.

Mr Arnold Kanter, a former under-secretary in the state department, says that a reasonable interpretation of the administration's change of line "is that the US has decided that it is more important to save Nato than to save Bihac".

All this has soothed European tempers, and rescued enlargement to the east from the realm of absurdity where it was languishing a few days ago. There is a feeling that Nato has looked into the abyss of complete disintegration and taken half a step backwards.

As one Nato official says, cooler heads in the alliance have realised that "if Nato breaks up over Bosnia, that won't help the Bosnians – and it will take away an instrument of security that is needed for other things".

And Mr Peter Tarnoff, under-secretary of state for political affairs, believes that enlargement could help to avert future Bosnias. In his words, the focus of today's meeting will be "a Nato which is reaching out to the east, which is trying to prevent ... repetition of what has happened in the former Yugoslavia."

Yet even if the name-calling over Bosnia is dying down, there are doubts as to whether enlargement will work as the unifying enterprise for Nato members that Washington would like to see.

All Nato members are committed in principle to enlargement, but most west European governments are nervous about the potential damage to relations with Russia. They hope Mr Christopher's proposals will not be too specific.

There is only one senior politician in Europe who matches, and often outdoes, the US administration in his enthusiasm for early enlargement: Mr Volker Rühe, the German defence minister. He has given the impression he does not particularly care how strongly Russia objects to this idea.

Russia's recent pronouncements suggest that opposition to the idea of its former satellites joining Nato is hardening, at least so long as Russia itself is excluded.

Some western politicians talk optimistically of "reassuring" Russia and gradually reconciling it to enlargement. But Moscow's increasing toughness is likely to be seen by many as an argument against rapid incorporation by Nato of the Visegrad countries.

The US has done its bit to soothe Moscow by floating some ideas on how the 53-nation Conference on Security and Co-operation in Europe (CSCE) could be upgraded into the kind of European security umbrella that Russia wants so much. But this seems unlikely to be enough to reconcile the Russians to the idea of Nato engulfing its former satellites.

At today's Nato meeting in Brussels, and at next week's CSCE summit in Budapest, Russia will be watching closely to see whether Nato really means what it says about earlier enlargement.

If Russia seems uncharacteristically quiet, that could be a sign that Moscow does not believe enlargement will happen: it expects western legislators in more than one Nato country to balk at the financial and strategic implications of amending the founding treaty.

If Russia calculates that this is the most likely course of events, it is in good company: there are many western foreign policy experts who make a similar prognosis. Desirable though enlargement might be as a unifying project, there is a long way to go before the US can convince its allies of the wisdom of the project.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Criticisms of British Gas directors' salaries unjustified and ignorant of new contract terms

From the chairman of British Gas.

Sir, Much has been written recently about executive directors' salary increases at British Gas, focusing principally on Cedric Brown, our chief executive. Most of the commentary, either by the press itself or by others reported by the press, has been critical and emotive. This criticism has been unjustified and largely fuelled by misconception.

Cedric Brown did not determine his pay package; it was decided by the remuneration committee of the board composed solely of non-executive directors. Earlier this year the committee undertook a major reappraisal of the British Gas pay structure for the executive board. This reappraisal led to the following changes for executive directors.

Three-year rolling contracts were terminated and replaced by two-year contracts. An annual bonus plan, which would have paid handsomely this year, was scrapped. This decision was based on the committee's view that annual bonuses for executive directors in British Gas's current circumstances were now inappropriate, as well as some scepticism on the effectiveness of such bonuses in general.

The remuneration committee also decided to terminate at the year-end British Gas's executive share option scheme, which has many years to run before expiring. A new, long-term, share-based incentive scheme has been designed as a replacement. This new scheme includes performance criteria based on the total return enjoyed by shareholders over time. Some of the executive directors also received one-off significant salary increases to bring their annual cash compensation to the median of a large sample of UK plcs.

These changes represent a complex set of trade-offs, but the remuneration committee believes that the shareholders' interests have been served without diminishing management's opportunity to earn more money if British Gas performs.

Cedric Brown's increase was the most dramatic; however, as chief executive he was the most underpaid. This was evidenced by the arrival of our new financial director on the board at a salary higher than Cedric's before these changes. Cedric Brown's current salary still places him well below the cash compensation earned by most executives holding comparable jobs in British industry, and below that of some chief executives leading smaller, less complicated and less challenging businesses.

Contrary to assumptions in the press, British Gas is not a cosy monopoly earning easy profits and high returns. Large parts of our revenue base are now unregulated and open to competition. This is true not only in part of our gas trading activities but in the whole of our service and retail businesses.

We have an exploration and production business competing here and abroad with all the world-class energy companies. It, too, operates outside the regulatory net and it could qualify as a "Footsie" company in its own right. We are also deploying considerable resources overseas to exploit our skills in gas transmission, distribution and power generation in a number of developing countries where these skills are highly valued.

Lastly, we are engaged in one of the largest corporate restructuring programmes ever undertaken in the UK, all designed to reduce dramatically our costs by more than £600m per annum.

Any knowledgeable observer must surely realise that Cedric Brown's task in leading British Gas is hardly easy sailing.

It is ludicrous to assume that the market pay for an executive can be best validated by his changing jobs. This view is often expressed by questions such as "if he is underpaid why doesn't he leave?" or "why hasn't he been poached?" If this view drives pay decisions, executive mercenaries will do well, but talented executives, whose experience is industry specific or who value loyalty to their employers, will be put at a disadvantage. This would surely be a perverse outcome of the process of determining pay.

It is hard to understand how continuing to pay Cedric Brown unfairly would benefit anyone. It would be a hollow gesture to those British Gas employees who have lost or will lose their jobs. What counts for them is the generous and sympathetic redundancy terms on offer by British Gas, which so many have already taken up.

Gas consumers have enjoyed a 20 per cent reduction in the real price of this fuel since privatisation in 1986 (excluding VAT). An enviable record when compared to other utilities. Moreover, following the current rebalancing designed to create more cost-reflective pricing, gas consumers can look forward to further price reductions through the effect of the regulatory tariff and eventually the creation of full competition in the domestic market.

Shareholders have nothing to gain by paying Cedric Brown less than he deserves. The financial consequences of his success or failure will dwarf these events. It is his performance that counts. The board has decided that he is the right man to lead British Gas and we fully support him. The shareholders must rely on that decision. If they believe that the board, particularly the non-executives, are too cosy with management and undemanding or that they lack diligence, they are wrong. There can be no question that our non-executive directors are independent and men and women of high integrity.

These pay decisions were made earlier this year and in the normal course of events they would have been fully disclosed in the annual report. The relevant information was always available for examination by any shareholder. The timing has been described as "insensitive". It is hard to visualise a "sensitive" time for this emotive subject.

That Cedric Brown and his family have been the victims of an unjustified and ill-informed volley of attacks is a matter for considerable regret.

Richard V Giordano,
chairman,
British Gas,
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152 Grosvenor Road,
London SW1V 3JL

Sleaze and the new universities

From Ms Christine Cheesman.

Sir, Your article on "sleaze" in higher education institutions ("Sleaze goes to university after government reforms", November 29) highlights the weaknesses of the 1988 Education Reform Act. The incidents which you quote are, however, only a small proportion of those which have been brought to our attention by academics employed in the higher education corporations.

Whereas the "old" universities are governed by bodies on which there is balanced and broad representation of both academic staff and the local community, there is only minimum staff involvement in the governance of the new universities and even that involvement is very strictly curtailed in the finance and personnel areas.

Moreover, when problems occur in the "old" universities, especially when they concern senior staff, appeal my be made to the Visitor, who can usually prevent a problem escalating into a scandal or *cause célèbre*.

The model of a company without shareholders is not appropriate for the management of academic institutions. The traditional university model was developed over many years and produced a system where there was a level of confidence, and yet the powers of their Visitor were then weakened by the 1992 Further and Higher Education Act. However, the generally held confidence in the management in the traditional universities is sadly lacking in many, if not most, "new" universities.

The government should now realise that the Education Reform Acts are seriously flawed and amend them, lest there be yet more incidents such as those you mention.

Christine Cheesman,
chief executive,
Association of University and College Lecturers,
104 Albert Road,
Southsea,
Hampshire PO5 2SN

UK should not discard criminal justice tradition

From Teresa Wyszomierski.

Sir, As a lifelong anglophile and civil libertarian, I was dismayed and disappointed to learn that Parliament has recently acted severely to curtail an accused subject's right against self-incrimination. British police are now instructed to warn suspects that their failure to mention exculpatory evidence at the time of arrest may strengthen the prosecution's case against them.

The British government has therefore effectively discarded its criminal justice tradition of requiring the burden of proof to rest squarely on the heretofore broad shoulders of the Crown. In so doing, Britain diminishes its reputation as the progenitor of many American liberties and fundamental western values.

The US recently mourned the death of Erwin N Griswold, a former US solicitor general and dean of Harvard Law School. During the 1950s, he courageously defended the constitutional privilege against self-incrimination in the face of Senator Joseph McCarthy's war on so-called "Fifth Amendment communists" – alleged traitors hiding behind the Bill of Rights. According to Dean Griswold, this privilege is "one of the great landmarks in man's long struggle to make himself civilised".

I implore Great Britain, as a bastion of western civilisation, seriously to consider Dean Griswold's fine words.

Teresa Wyszomierski,
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Maspeth,
New York 11378, US

BT given no incentive

From Mr Tony Young.

Sir, Of course – as Mr Ian Wheeler (Letters, November 29) indicates – BT could fill its ducts full of optical fibre, but why should it do so?

What is the point of the company investing some £15bn in such a broadband network when the current regulatory framework only allows it to carry narrowband services on that network?

Britain needs a national information superhighway available virtually to all homes and businesses in the country. However, local cable television operators alone will never create such a ubiquitous network. BT – in competition with many others – is prepared to make the national investment if it is allowed to carry the full range of services that will generate the revenues to justify that investment.

All it has at present is the government's promise of a review in 2001 of the present regulatory constraint with no assurance that that constraint will be lifted even then. The House of Commons select committee on trade and industry provided an alternative scenario. The government should adopt it.

Tony Young,
general secretary,
National Communications Union,
Greystoke House,
150 Brunswick Road,
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An intellectual tyranny

From Dr Anne-Carole Chamier.

Sir, Joe Rogaly argues that political correctness, in moderation, "is socially beneficial" ("All present and correct", November 26). Tact, discretion, respect for others, diplomatic language, kindness and decency have always been valued by the civilised; but they have little to do with political correctness.

There is nothing moderate about pc. It is an intellectual tyranny that gags open, rational discussion. It is the hallmark of a closed society that has lost interest in the pursuit of objective truth. Far from promoting tolerance and understanding, the repressions demanded by pc increase paranoia, mistrust, ignorance and hatred. The enemies of political correctness, whatever their political allegiance, are the friends of intellectual freedom.

Anne-Carole Chamier,
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Ardross, by Alness,
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Phantom extras on the hotel bill

From Ms Lesley Abdela.

Sir, I do not know if other FT readers have minor cautionary tales of working in the transitional states of the former Soviet Union and its satellites, but it would be helpful to be told about the latest scams in operation there.

So far, mine are only minor (I have not yet visited Moscow) in visiting central Europe to conduct courses for future women leaders, for the British Council/Foreign Office Know-How Fund/Harvard University/Undip. I would thoroughly recommend visitors check out of their hotel and pay their bill with at least half-an-hour to spare, to haggle over what exciting items turn up on the account.

At the Novotel Europa in Sofia this month I discovered I had made phantom calls to about five other countries, presumably in my sleep, as I certainly did not during my waking hours, and I seemed to have developed a very large appetite for eating several breakfasts and dinners at the same time.

Because I had to get to the airport, I paid and hared off. My feeling is someone was making a nice income charging an imaginatively-disguised desk-clerk tip in the bill.

Lesley Abdela,
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SN10 3QQ

Milk processors and farmers must recognise mutual dependence

From Mr Neil Davidson.

Sir, Deborah Hargreaves's article, "Competition likely to churn up and slim down the dairy industry" (November 19), seems to suggest that high raw milk prices will result in more added value products. This prognosis, we believe, is wide of the mark.

With the exception of fresh liquid milk, all our dairy markets are exposed to foreign competition. Our existing value-added dairy product manufacturers have been among those hardest hit by the prices imposed by Milk Marque, with increases typically in the 15 to 20 per cent range at a time when our European competitors' prices have been falling. There is no overcapacity in this sector, but there is a real danger of losing our existing value-added markets to imports rather than seeing them develop. Who, in their right mind, is going to invest in new capacity in the UK in this climate?

The article is dismissive of the cheddar cheese market, but is this justifiable? Thirteen per cent of output goes into cheddar, which is a real consumer market worth £600m per annum. Already, more than a third is imported. Are we really saying that this large market should be abandoned to imports altogether? Under the current pricing regime this will happen because our manufacturers cannot compete on a 4 per cent gross margin.

There is a strong argument for seasonal cheddar production, taking advantage of lower raw milk input costs from cheap grass feed rather than expensive concentrates necessary for year-round production. This strategy is the basis of the Irish industry, but throws up spurious capacity utilisations. Under Milk Marque these cheaper input costs do not get passed on to the manufacturer and then the consumer.

Further rationalisation of the industry is inevitable, but is a process that has been ongoing for the past 10 years, driven mainly by the change in distribution channel from doorstep to supermarket in liquid milk.

The fundamental Milk Marque issue remains – an uncontrolled monopoly in an under-supplied market in which production is finite because of quotas.

Uniquely in Europe, the price UK farmers now receive is totally disconnected from what markets will bear. High milk prices pose a threat to every dairy market; investment is being strangled rather than stimulated.

Farmers need a healthy processing sector which can only be achieve if dairy companies make profits to reinvest. Processors and farmers need to recognise their mutual dependence and work together in partnership. Farmers' leaders need to show real vision sooner rather than later.

Neil Davidson, *president,*
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FINANCIAL TIMES

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Thursday December 1 1994

A fresh chance for Russia

The autumn collapse of the rouble has brought the Russian government to the brink of a credible attempt to stabilise the economy. There are serious flaws in its new budget package, now awaiting the approval of both the Russian parliament and the International Monetary Fund. But it is a ground-breaking document nonetheless. Few would forgive either institution if their doubts extinguished Russia's latest and best chance of laying the foundations for stable growth.

Worked out partly in collaboration with the IMF, the draft 1995 budget marks a decisive shift, on paper at least, from the gradualist anti-inflation efforts of recent years. This is because further efforts to lower the budget deficit would this time be accompanied by three safeguards which past attempts have lacked: namely, the nominal anchor of a pegged exchange rate, strict rules against monetising the budget deficit, and $13bn in western support.

The plan still falls short in important respects. Tax revenues, for example – which have fallen to a mere 11 per cent of GDP this year – are unlikely to meet the plan's rosy expectations. Neither are economic growth, inflation or interest rates. This means that next year's budget deficit will not fall to the targeted 8 per cent of GDP in 1995, down from this year's 10 per cent. Indeed, without extra spending cuts, the chances are that it will grow larger.

These weaknesses will have to be tackled sooner or later. But more important, in the short run, than lowering the deficit is changing the rules for financing it. The government hopes to fund half of next year's shortfall through domestic bond issues, with the rest funded by a mixture of IMF support and other foreign financing. The idea of the budget plan is that the central bank would be barred from resorting to the printing press if the deficit exceeded its target. If it held, the new regime would impose a powerful new constraint on over-spending – showing that in principle at least, the Russian authorities know what is needed to win credibility.

Here, too, the detail of the budget is over-optimistic. Only around 10 per cent of this year's deficit had been covered by treasury bill sales by the end of September. Real interest rates might have to rise substantially to find enough buyers, thus further endangering the government's targets.

Opposing deputies used these arguments in criticising the budget in last Friday's debate in parliament: they want a much less ambitious programme. Rather than craft one of their own, however, they set up a conciliation council, which must reach a compromise with the government by December 10.

Parliament has the power to stop the reform effort in its tracks. But it would then have responsibility for finding a more palatable, or incremental, alternative. The deputies have no hope of finding one. Weak demand for government bonds is a symptom of failed gradualism. So, too, is the fact that Russians now put half of their earnings into foreign currency. Successfully pegging the rouble with a $5bn stabilisation fund from the IMF would restore faith in its value. The reward would be rising demand for roubles and government bonds, which would lower the cost of stabilisation.

Unlike parliament, the IMF can improve Russia's chances of success. It should work with the government to bring the package and its planned implementation closer to its requirements. But then it should sign.

Small steps

A Budget for jobs, perhaps, but very few of them. Mr Kenneth Clarke demonstrated on Tuesday that he understands the UK unemployment problem better than many of his predecessors. Regrettably, he appears only a little more willing to do something about it.

Mr Clarke put his finger on most of the central problems facing the country's unemployed workers in the several measures he announced: the declining demand for low-skilled workers – especially when they have been unemployed for some time – and the disincentives to work imposed by the benefit system. But the effectiveness of a sniper depends on his fire-power as well as his aim. On that score, Mr Clarke's Budget fares poorly.

As the chancellor noted, the long-term unemployed face a difficult battle persuading employers to take them on. There is a strong case for tax breaks targeted at these individuals. Mr Clarke followed this logic in introducing a national insurance "holiday" for companies which employ those who have not worked in over two years. When it eventually comes into force, in April 1996, eligible individuals will be about 5 per cent cheaper to employers.

Welcome though this is, most employers think that human capital depreciates rather more than this during a long period without work. Narrowly targeting the measure to the very long-term jobless means that it will give one, highly excluded, group a small advantage over those who have faced the same barriers for a slightly shorter time. As with the small reduction in employer national insurance contributions, it is difficult to believe that many jobs will be created. At the very least, the holiday ought to have applied to all those unemployed for over a year, and also have been implemented sooner.

Many of the benefit changes are welcome. Preserving housing benefit for the first four weeks after finding a job and speeding up receipt of family credit may help lessen the financial uncertainties attached to taking employment. But the "fast track" procedure for receiving family credit will never be instantaneous. Mr Clarke would have achieved rather more by instituting a carry-over period for income support.

Fifteen per cent of non-pensioner households in the UK are out of work, compared with 5 per cent 20 years ago. It would be unfair to say that Mr Clarke did the least possible to help these people on Tuesday. He did at least take several steps on the road towards towards bringing them back into the workforce. He might have taken none at all. But with steps this small, it will be a very long road.

Iberia's woes

Two years after receiving a Pta120bn emergency injection of public funds, Iberia, Spain's state-owned airline, says it needs a further Pta130bn capital infusion to avert the threat of bankruptcy. If the EU is to have an efficient airline industry and prevent the spread of state aids from undermining competition, the European Commission must firmly reject any proposal by the Spanish government to stump up the cash.

For Brussels to do otherwise would contradict its insistence, when it blessed the last rescue, that Iberia seek no more handouts before 1996. Nothing could demonstrate more clearly that the commission lacked the resolve to enforce its doctrine that state aids to the sector be granted on a "one time, last time" basis. Such a precedent would only encourage other troubled airlines to flout EU disciplines with impunity.

Iberia's recent history is a textbook lesson in why such disciplines are needed. Its latest crisis could probably have been avoided had the airline been privatised in the late 1980s, while it was in profit. Instead, it was encouraged by INI, the state holding company which owns it, to embark on an aggressive attempt to become a global player by buying up carriers in Latin America. The idea was that increased scale would give Iberia a central role in an eventual restructuring of the European airline industry.

The price of this misconceived expansion has been losses on the acquisitions equal to the value of the 1992 capital injection. A privately-owned Iberia, free to follow commercial logic rather than INI's dictates, would have had a stronger incentive to pursue a more realistic strategy which would have concentrated on improved productivity, not greater size.

That is particularly important in Iberia's case, since much of the international competition it faces is from cut-price holiday charter airlines with far lower costs. Matching its leaner rivals' efficiency is Iberia's only hope for operating profitably. The Spanish government's priority should be to accelerate the necessary restructuring and require Iberia to finance it by selling assets. That process would be greatly encouraged by setting a timetable for privatisation of the airline.

Brussels, meanwhile, needs to ensure that it maintains a line on subsidies which is not only firm but consistent. Regrettably, the commission's recent record – notably its approval of FFr20bn of state aid for Air France – suggests that this has not always been the case. To apply rules unevenly, particularly when doing so appears to favour politically more powerful governments, is as unsatisfactory as having no rules at all.

ECONOMIC VIEWPOINT

Much ado about a little tax

By Samuel Brittan

Unfortunately, instead of analysing this week's Budget and the economic prospects, attention is focused on how much the chancellor has saved up to "give away" next time in the run-up to an election. In fact, no government ever gives anything away; it merely takes more or less. But the vision of the chancellor as Santa Claus is difficult to kill.

Even on conventional assumptions, the tax-cut discussion is spurious. The small table shows that, based on the arithmetic of successive Budget Red Books, the combined tax increases imposed by Norman Lamont in the first 1993 Budget and by Kenneth Clarke in the second Budget of that year amount to £17bn. per annum. This week's Budget remitted a negligible sum apart from the temporary relief for business rates.

If the fiscal position turns out better than the Treasury's present cautious estimates, the chancellor would still be mistaken if he does anything to enlarge the Budget deficit or even to remit a surplus. The case for achieving better than the Maastricht guidelines during periods of rapid growth, to leave something in hand for a rainy day, is made by Mr Clarke's own officials in the Red Book, and has been elo-

Recent tax increases and hypothetical tax cuts

	Final full-year effect (£bn)†
Lamont, March '93* Budget and after	11
Clarke, Nov '93	6
Clarke, Nov '94	-
Total tax increases	17
Cost of 5p cut in basic rate	10½

† Change from an indexed basis
* Includes postponed abolition of stamp duty on securities
Source: Red Books and Written Answer, Nov 3 1994

quently stated in a European context by Hans Tietmeyer, the Bundesbank's president.

In the few years from the late 1980s to the early 1990s, fashionable opinion has swung from worrying about what to do with a Budget surplus to an obsession with what seemed to be an ever-growing fiscal hole; it is now swinging back again. In fact, it is hardly possible to exaggerate the cyclical and temporary elements in the fiscal swings, both past and prospective.

The dangers of fiscal laxity are rather more subtle than financial alarmists suppose, as we have seen from the number of times they have cried "wolf" over the US budget. Suppose then that Kenneth Clarke succumbs to siren pressures from colleagues to remit some taxes in his next Budget. The small table makes the extreme assumption that he will reduce the basic rate of tax from 25p to 20p. It is, of course, most unlikely that he would do this other than as part of a phased programme, the main benefit of which would be felt after the election. It is also highly unlikely that everything available would be concentrated on the basic rate. Some of it would be used to widen the 20p lower rate band, and for other purposes.

But even on the extreme assumption of the table, the chancellor will only have remitted some £10bn per annum, compared with the extra £17bn which he and his predecessor have levied in stages in their 1993 Budgets to plug the fiscal hole. If anyone wants to say that taking away 17p and remitting 10p is a tax cut or a gift for which he or she should be grateful, he or she is welcome to this funny use of language.

However, the absurdity is even greater. For announced tax rises represent only part of the extra taxation imposed by government. Another part of the increase arises from the automatic effects of economic growth on a tax system which is indexed only for inflation and not for increases in real income. The accompanying Treasury chart shows public sector receipts rising from 36 per cent of GDP in 1993-94 to a projected 39¾ per cent in 1996-97. Translated into actual cash this increased tax-take is worth over £25bn per annum. If two-fifths of this is remitted by incautious so-called tax cuts, the taxpayer will still end up paying a higher proportion of his income to the government than during the Wilson-Callaghan Labour government of 1974-79.

Let us, however, pause from crystal-gazing about next year's Budget to celebrate the virtues of the Budget we have. It provides for a rapid move to correct the imbalances in the public sector finances. The public sector borrowing requirement is expected to be at the 3 per cent level required for Emu in the Maastricht treaty by the next financial year, 1995-96. In the year after, 1996-97, borrowing will be little higher than the level required to finance net public capital spending: that is, the current deficit will have all but disappeared. The PSBR itself should vanish a year or two later.

This is all expected to happen despite cautious official forecasts which many City analysts believe understate both the rate of economic growth and the improvement in government finances.

The specific measures to counter structural unemployment are also on the right lines. Their main defect is that they are on too small a scale. But now the door is open, critics should push against it, instead of indulging in political sulks.

Indeed, anyone who reads the Economic Assessment section of the Budget Red Book will find that Treasury economists are more upbeat on the prospect than Kenneth Clarke was in his Budget speech.

The upturn is export and investment led: half the growth so far in 1994 comes from an improvement in the net trade balance, arriving at a time when UK growth is faster than that in the country's main trading partners. The balance of payments constraint has been relegated to the dustbin where it has always belonged.

Looking ahead, the Budget Red Book has an illustrative projection of the growth of the national income in the remainder of the 1990s. The broad picture is that nominal GDP – which can be regarded as the national cash flow – rises by nearly 5 per cent per annum, of which 2¾ percentage points represent real growth and 2 per cent the inflation rate when the government's low inflation objectives are achieved.

It is a pity that these medium-term projections have been removed from the chapter on the Medium Term Financial Strategy – which has been emaciated to the point of near-extinction. In fact medium-term movements are less difficult to analyse than short-term changes, which are inevitably jerky and are influenced by outside shocks which are by definition unforeseeable. The value of the medium-term projections depends on users being adult enough to see them as trend rates of change and not a vain attempt either to foresee, or to eliminate, the ups and downs of the cycle.

Another reason for wanting to emphasise the medium-term projections for nominal GDP is that they form a sensible objective for policy. A medium term objective for nominal spending makes more sense than the present reliance on a target for inflation alone, but it would still put a firm limit on any inflationary overshoot. It would also be less dependent than the present approach on real output forecasts and guesses about the capacity gap.

The tentative medium-term projections contain other interesting information. We are given the Treasury's estimate of trend growth as 2 to 2¼ per cent per annum. The projected actual growth rates imply that there is enough unused capacity and unused labour for above-trend growth to the end of the century, without igniting an inflationary takeoff. If the projections are anything near the right ball park, the unemployment assumptions made for forecasting social security spending are far too pessimistic. For they assume that UK employment will stabilise at 2.5m, just below today's level.

Although economic prospects may be the best for 30 years, we are still in the early stages of the upturn when policy is easy. A very early rise in base rates is required for its own sake and to underline the low inflation commitment.

The case for increasing interest rates does not depend merely on hypothetical reasoning about underlying growth trends and the size of the capacity gap. In addition there is strong survey evidence that businessmen are looking for a chance to raise prices. Above all the world, and especially the European, economies are recovering much more rapidly than expected; and this feeds into costs and prices both via rising commodity prices and, more fundamentally, by making it easier for British producers to adjust pay and prices upwards. Over to the next instalment of the "Ken and Eddie" show next week.

British MPs' voting rules and working practices are unnecessarily archaic, argues **Philip Stephens**

Parliamentary lunacies

When will our politicians grow up? To judge by this week's House of Commons vote on the Brussels budget, we have a long wait. No, I am not referring to the substance or otherwise of Mr John Major's little local difficulty with a bunch of Tory Europhobes who think Britannia still rules the waves. Nor is this the occasion to think aloud about how Mr Tony Blair can reconcile a pledge to keep Labour at the heart of Europe with voting against a financial agreement he supports. We expect those sort of shenanigans from our political masters.

What was sad on Monday evening was the sight of sick, and in some cases very sick, MPs being forced to turn up at Westminster to vote on the issue. To prove politics is a serious business, government and opposition felt it necessary to haul their supporters from hospital beds to demonstrate in person their loyalty. It didn't matter that friends fear for the life of one of those who dragged himself through the voting lobbies; nor that another was too ill to leave the car which had brought him to the Palace of Westminster. The electorate expects such sacrifices of its legislators.

One or two MPs attempted a rational explanation. The vote on Britain's contributions to the European Union had been turned by Mr Major into an issue of confidence. If the government had lost, there would have been a general election. With stakes so high, Mr Blair could not be blamed if he refused the normal "pairing" arrangements under which the votes of the sick are deemed to cancel each other out.

Pull the other one. No one thought the government would lose. Mr Blair said as much on numerous occasions even before the debate started. Once the Ulster Unionists said they would back Mr Major, the only interesting question was the number of Tory rebels who would be thrown out of the party.

Fair enough, conceded an old-timer. But you had to have a sense of history about these things. Remember that Mr James Callaghan had fallen in 1979 only because he was stupidly decent enough not to force a dying member of his party to turn up for the fatal confidence vote. In those good old days of minority government during the late 1970s, the courtyard of the Commons had been full of ambulances during every vote.

So Mr Major, now shorn of his paper majority, cannot be let off the hook which impaled Mr Callaghan. Anyway, chipped in a cabinet minister (yes a Tory this time), the atmosphere, the uniqueness of the whole place, depended on these moments of high drama. If we were not careful, someone would suggest electronic voting to replace the time-honoured tradition of MPs stumbling or being pushed in wheelchairs through the voting lobbies.

There is, of course, a simpler explanation. The powers-that-be in the government and opposition whips' offices (there is no party politics in any of this) will not change the present system because they trust no one. Any arrangement which allowed the very sick to be "paired" off instead of turning up for important votes would depend on MPs being truthful. Some would abuse the system by pleading the merest hint of a cold as sufficient excuse to avoid the journey to Westminster. Even if MPs were honest about their state of health with their own sides, you could hadly expect the opposing whips' offices to tell each other the truth.

The same undercurrents of mutual mistrust and misguided defence of ignoble tradition percolate the long-running debate over MPs' working hours and the introduction of a more rational allocation of time for parliamentary debates. For laws to be well made, it seems our legislators must preserve the scope for late-night procedural ambushes and backroom deals between the whips' offices.

In the next few weeks the government will announce one or two modest reforms. Parliament will meet occasionally on Wednesday mornings. MPs will be given more Fridays off, so that those from far-flung seats can spend more time with their constituents. But the essential lunacies – time off in the mornings for part-time jobs in the City and Law Courts, followed by late-night sittings and endless wrangling over the timetable for legislation – will remain. So too will the voting rules which, before her death earlier this year, obliged Ms Jo Richardson, the Labour MP, to spend the evenings of all important debates in an ambulance parked next to the voting lobbies.

To change all this, it seems, would be to demystify Parliament, to remove the essential adversarial quality of life at Westminster. Worse still, our legislators might be obliged to take each other at their word. And the politicians pretend to wonder why the voters don't trust them.

OBSERVER

How to be a lady's man

■ Will Sir Leon Brittan ride again? Word is that the big loser in the share-out of portfolios among the new European commissioners could be eyeing up one of the two vice-presidencies on offer in the new 20-member Commission.

The posts may have been largely ceremonial to date, but the vice-presidents would enjoy rather more room for manoeuvre if the genial new president Jacques Santer does not assert his authority early on.

By failing to extract a consolation prize last month when he lost his central and eastern European patches, Sir Leon has of course already passed up his most obvious chance to go for the role. He huffed and puffed and threatened to chuck in his entire job as commissioner for external relations – thereby eliciting numerous calls for him to stay in Brussels, but also losing himself standing within the Commission.

Now, friends believe his change of heart is not without its pitfalls. Hot favourite for one of the posts is Karel van Miert, the popular Belgian commissioner for competition policy. The five new women commissioners – led by Edith Cresson, the former French prime minister – meanwhile, spot an ideal opportunity for one of their own to challenge the image of Brussels as an exclusive male preserve. So does Sir Leon do the gentlemanly thing and make way for a woman?

Truth will out

■ Maybe it was post-Budget exhaustion. But Kenneth Clarke rather gave the game away during a briefing for economic hacks at the Treasury yesterday. Asked how many new jobs his Budget measures would create, the chancellor responded: "I haven't yet calculated how many votes will be created."

Naked Ken

■ Meanwhile, the prize for the most imaginative piece of post-budget scribbling must go to Credit Lyonnais Laing for its 26-page glossy booklet – *Kenneth: his new budget*. No one has tried harder to sell a boring budget to a wider audience. Starting with a flattering portrait of the chancellor, the dust cover promises that Kenneth reveals all: how his spending disorder was found out; how the markets forced him into a loveless marriage with Eddie; how his private conversations were later revealed in the press, etc.

Plaudits for the book include: "It's hard to believe it's all his own work" (Norman Lamont), to "Right up to the last page you don't know how much tax you are going to be paying" (Crime Writers' Guild). However, Labour's Gordon Brown summed it up best – "A difficult one to follow."

'Brian went to 1996 in his time machine, collected our electoral bribe and paid the gas bill with it'

Cap'n Bert

■ The European, the weekly newspaper founded by the late Robert Maxwell, is on a bit of a roll these days. It is much livelier than it was in Maxwell's day, which may reflect the fact that its new owners – the secretive Barclay Brothers – do not seem interested in interfering in its day-to-day running.

Now the paper has recruited Bert Hardy, probably the most astute manager on Fleet Street, as its chief executive. Bert, who retires as managing director of Associated Newspapers at the end of the year, is knocking on a bit. But after 52 years in Fleet Street, he should have as good a feel as anybody whether The European has a future as a proper newspaper. His arrival suggests that it can no longer be dismissed as just another rich man's plaything.

Novel idea

■ A guilty conscience at Great Western? First class passengers arriving at Paddington station yesterday were presented with a copy of *Degree of Guilt* by Richard North Patterson.

It's all part of a GW promotion, Business First, which gives first class passengers complimentary refreshments and a daily newspaper between 7 am and 7 pm, Mondays to Fridays. Then, every few weeks, they also get a free book. The blurb for yesterday's 595-page offering has it as being "impossible to put down". Sounds just right for travelling InterCity.

Post haste

■ Benazir Bhutto and Michael Heseltine were obsequiously congratulating each other on their respective careers at Oxford University during their *tête à tête* at the Confederation of British Industry yesterday.

The Brits seem to assume that flattery will get you everywhere and Bhutto was, after all, the first foreign woman to become president of the Oxford Union.

Feeling rather left out by all the talk of undergraduate days, John Major eventually managed to butt in with a question for Bhutto as to whether she had privatised her country's post office yet. "I recommend it," he threw in mischievously.

"A little chat with an Oxford colleague will tell you all you need to know."

Wrong ring

■ Cellnet's new guide to European business etiquette – Euromanners – promises to help the Brit conducting business abroad "[avoid] any embarrassing social or business gaffes". Not before time.

Only trouble is, Cellnet itself would seem to be more urgently in need of help than even the average clueless Brit. Take the little paragraph on how women should dress, entitled "view from a broad". Or the entry on accessories, which triumphantly reminds readers that handbags for men are "widely known in the UK as 'pansy pouches'".

Which casts doubt, to say the least, on the validity of any of the rest of the "advice" on offer.

FINANCIAL TIMES
Thursday December 1 1994

Russia set to use force against rebel republic

By John Lloyd in Moscow

Russia was on the threshold of military action last night against the breakaway republic of Chechnya as the deadline loomed for President Boris Yeltsin's ultimatum that the rebel leadership lay down its arms.

The crisis, building since Chechnya's declaration of independence late in 1991, has been intensified by Mr Yeltsin's deadline of 6am today for compliance by the Chechens.

Detachments of interior ministry troops were massed at the base of Mozdok, across the border from Chechnya in the neighbouring republic of North Ingushetia. Women, children, and the elderly were told yesterday to leave the Chechen capital Grozny, 1,500km south-east of Moscow.

A report in the Moscow daily Sevodnya said that a further detachment of officers based in Khabarovsk,in the Russian far east, had been awaiting orders for several days to fly to Grozny to police a state of emergency.

General Dzhokar Dudayev, the Chechen president who declared the north Caucasian republic, which has a population of 1.2m, independent, has said that any attack by Russia will be met with armed resistance by the population. Grozny airport was bombed for the second day in succession yesterday, with reports suggesting that at least 10 aircraft had been set ablaze on the runway. Russian bases surrounding the republic denied ordering a bombing mission.

Fighting has ceased between the Chechen forces loyal to Gen Dudayev and the Russian-backed opposition provisional council – which brought opposition troops to the gates of the presidential palace at the weekend. The council declared a ceasefire after Mr Yeltsin's ultimatum on Tuesday.

The Chechens are seen, especially in Moscow, as violent and disproportionately involved in organised crime. They carried on resistance to Russian imperial rule in the 19th century more bitterly than any other Caucasian people and were repressed by Stalin during the war for alleged collaboration with the Germans.

Because of that reputation, strong fears have been voiced of a campaign of retaliation in Russia if intervention goes ahead. The guard on Mr Yeltsin has been strengthened, as has security at nuclear power stations.

While preparing for war, Russia is also making overtures for a peaceful settlement. Mr Victor Chernomyrdin, the prime minister, was reported last night as telling a group of journalists that "we are ready for talks with anyone – but I hope the people of Chechnya understand that they cannot play games and that this cannot go on".

Mr Sergei Yushenkov, chairman of the Russian parliament's defence committee, is to fly to Grozny today to attempt to negotiate the freedom of as amany as 70 Russians captured in the weekend fighting. An aide to Mr Yushenkov said last night that Gen Dudayev had agreed his safe passage and to hold talks on the prisoners' fate, although an earlier statement from the Chechen press service denied that they would be freed.

The Interfax news agency, quoting a source in the Russian leadership, said that Moscow still hoped for a peaceful resolution – adding that "the resignation of Dzhokar Dudayev and possibly his departure for a middle eastern country would be conducive to resolving the situation".

Iran and Jordan are regarded as most likely to receive Gen Dudayev, a Moslem, but yesterday both denied any intention of interfering in Russia's affairs.

UK reopens contacts with IRA after Newry killing

By David Owen, Jimmy Burns and Our Belfast Correspondent

The UK government has reopened secret contacts with the Irish Republican Army in the wake of the killing of a postal worker in Newry earlier this month in a raid carried out by republican gunmen.

This emerged yesterday as the government looked poised to send a letter to Sinn Féin, the IRA's political wing, indicating its readiness to begin preliminary talks before Christmas.

The talks are now thought likely to get under way either on December 12 or December 16. Sir John Wheeler, Northern Ireland security minister, said he had no doubt exploratory talks would begin "within a few days".

The government has also promised to start preliminary dialogue with loyalist representatives by the end of the year.

It is understood that the government contacted republican leaders immediately after the Newry murder to demand an explanation for what happened.

The demand brought an admission from the republicans that they did not know what had prompted the raid and that they were trying to find out.

The government then sent a second message saying that it needed firm answers.

The exchange underlines how close the killing – the first since the IRA and loyalist paramilitaries declared ceasefires – came to derailing the peace process.

Mr Gerry Adams, president of Sinn Féin, initially accused the Royal Ulster Constabulary of trying to damage the process by blaming republicans for the shooting. But the IRA later acknowledged its members had been responsible.

Sir Patrick Mayhew, Northern Ireland secretary, said on the day of the killing on November 10 that he was "deeply angered" by the "callous and wicked" murder. But he emphasised that the peace process was "on course".

It is believed that the secret contacts may have been initiated by Downing Street but were probably carried out by MI5, the security service. However, a Downing Street official said yesterday he had seen "no evidence of any kind" that such contacts had taken place.

Yesterday's developments came as Mr Adams said the government had reopened its secret contacts with Sinn Féin to advise it to expect a date shortly for exploratory talks.

But he said Sinn Féin had no interest in using the secret channel of communication again.

Earlier Mr Adams and Mr John Hume, leader of the mainly Catholic Social Democratic and Labour party, issued their first joint statement since the IRA ceasefire.

They urged the government to be more positive in its attitude to the peace process.

Milan magistrates lose inquiry role

Continued from Page 1

could not obtain a fair hearing because the Guardia di Finanza was being used to investigate corruption allegations inside the corps. He further highlighted the unusual circumstances of members of the Guardia di Finanza, used by Milan to investigate other cases of corruption, now being accused of corruption themselves.

Although the appeal court judgment appears to be founded on sound legal argument, in the present highly charged political climate it is automatically seen by the government's opponents as directed against the Milan magistrates. Italian justice has seen many cases removed from one jurisdiction to waste time and confuse issues.

Mr Berlusconi has openly attacked the politicised nature of the Milan judiciary, which is investigating him for alleged corruption relating to the payment by Fininvest companies of bribes totalling L330m ($207,000) to the Guardia di Finanza between 1989 and 1992.

EU states divided on Europol police force plan

By David Gardner in Brussels

German plans to build up Europol, the embryonic pan-European police agency to fight organised crime in the European Union's single market, ran into opposition from France, the UK and Spain yesterday.

The German presidency of the EU had hoped long-delayed agreement on the Europol convention would be completed at a meeting of the Union's justice and interior ministers in Brussels, ready for unveiling at the Essen summit of EU leaders on December 9-10.

Chancellor Helmut Kohl conceded in Bonn that the dispute over Europol's role and scope, in which Germany and France are on opposite sides, is unlikely to be resolved until next year. Mr Kohl was talking after a pre-Essen summit with President François Mitterrand, whose country takes over the EU presidency in January.

France insists that national police officers attached to Europol must have access not only to standardised data pooled in Europol, but also more sensitive intelligence. However, the latest German proposal, backed by all its other partners, would restrict access to sensitive data except where Europol and national liaison officers attached to it, were directly involved.

The German position reflects concerns that national police forces do not lose control of their most delicate operations.

But the French are not isolated on all fronts. Mr Charles Pasqua, the hardline Gaullist French interior minister, has support from Britain and Spain in his determination to keep the Europol project firmly under national government control.

Mr Pasqua did not attend yesterday's meeting, in what some French officials hinted was a message that police force co-ordination is a matter for intergovernmental co-operation.

France and the UK also rule out German ambitions for Europol to develop an eventual operational cross-border role. In a vain attempt to salvage some sort of agreement last night, the German presidency argued for the short-term expansion of Europol's only functioning body, the anti-drugs unit in The Hague, to cover issues such as plutonium trafficking, and illegal immigrant smuggling.

Germany's partners first want a common philosophy and legal framework for Europol to be agreed.

Spain wants Europol to have counter-terrorism within its remit from the start. Madrid blocked any advance yesterday on controversial new EU measures defining the right of asylum, which Spain wants limited to nationals from non-EU countries.

THE LEX COLUMN

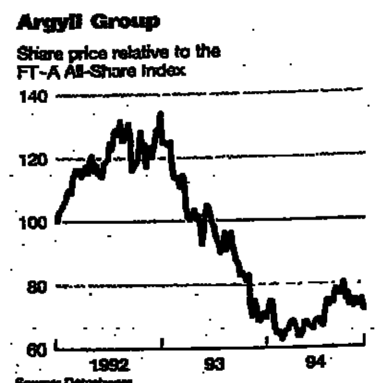
A cracking cartel

The European Commission's Ecu248m fine on the European cement cartel is a record but may have little impact on the share prices of the companies concerned. Large penalties had already been fully discounted by the market. In fact, the fines – at up to 6 per cent of relevant 1992 turnover – were lower than the 10 per cent some had feared. So share prices could even benefit a bit.

The bigger danger for cement makers would be if the Commission's crackdown led to a more competitive market. Certainly, they would be extremely foolish to collude to carve up the market. But collusion may not be necessary to keep competition at bay. The high cost of transporting cement means the market is naturally divided into local monopolies. It typically does not pay one manufacturer to ship cement to a different territory even if prices there are high. Nor is there much incentive to build new plants in high-price locations. There is no need for new capacity and in any case £100m in capital would have to be sunk into a new 1m tonne plant. The risk that an established operator would react to a new entrant by slashing prices is too great for most companies to contemplate.

Still, there are situations where more competition may develop. Coastal regions are vulnerable since it is cheaper to transport cement by sea than land. Cheap Greek imports have already had an impact on prices on the shores of Spain and France. The French hinterland could also prove tempting to competitors since prices there are much higher than the European average. But so well dug-in are the French companies that a serious invasion would require great bravery.

FT-SE Index: 3081.4 (+20.3)



Argyll Group

Investors have long suspected that Argyll is more vulnerable to intense competition in food retailing than J. Sainsbury or Tesco. The fears were borne out yesterday and, as a result, the shares fell 6 per cent despite pre-tax profits up in line with expectations.

There are three problems. First, the decline in like-for-like sales in the first half worsened in the first six weeks of the second half. This is worrying since like-for-like sales are rising at Sainsbury and Tesco, which appear to have beaten off the threat from discounters. Second, gross margins slipped in the first half, and are unlikely to show any marked improvement over the full year as the group continues to cut prices. Third, there will be no announcement on the group's long-awaited restructuring, expected to cut costs by at least £30m, until the spring. It would have been damaging to morale to announce job cuts in the busy period ahead of Christmas. But the group should not have given the impression earlier in the year that details would be revealed by now.

These issues apart, the group is taking the right steps to entice high-spending young families into its stores. Moreover, the fact that sales per square foot are far behind its bigger rivals means there is scope for an acceleration in earnings growth as the gap is narrowed. The shares are unlikely to fall significantly further after yesterday's correction as they are underpinned by a yield of nearly 6 per cent assuming a full year dividend of 12p.

Private finance

The UK's private finance initiative has so far been characterised by much noise and little action. The chancellor's claim this week that £5bn of contracts would be awarded by the end of 1995 may prove accurate but that is not saying much: for a start, the figure includes the £2.7bn Channel tunnel rail link which is not scheduled to finish until 2002. In the short term, the most the construction industry can expect from the initiative is a palliative for the cuts in infrastructure spending announced in the Budget.

Nonetheless, there now seems sufficient political commitment to make a success of the initiative in the long term. One effect will be to polarise the construction sector. Companies such as John Laing and Tarmac, which have strong enough balance sheets to make equity investments, may find the volatility of their earnings eventually reduced. If they can properly balance risk with return they should also generate good profits.

Smaller groups will be reduced to participating as minor partners in large consortia. In theory, their financial weakness should trigger industry consolidation. However, hostile bids are unlikely because little is publicly known about the value of construction companies' contracts. Friendly mergers are also unlikely. Most groups continue to be led by powerful personalities reluctant to cede control.

Hoechst

Hoechst is showing atypical dynamism. Yesterday's results were better than expected. That was partly due to an early dividend from its PVC joint venture. But aggressive cost reduction also played an important role: the number of parent company employees has fallen 12 per cent year on year. Margins may still look low by comparison with other German chemicals groups, but these have been depressed by restructuring charges.

Mr Jürgen Dormann, who became chairman this year, has also been sorting out Hoechst's problem businesses. The dyestuffs, fibres and acrylics operations have each been spun off or merged with other groups. Yesterday Mr Dormann publicly announced he would strengthen the drugs business by making a US acquisition. It certainly needs help: margins last year were just 10 per cent compared with Bayer's 19 per cent. An acquisition will not be a panacea. It may add market share but more will be needed to boost Hoechst's unproductive research and development.

Although Hoechst's pre-tax profits rose 83 per cent during the first nine months, its shares are where they started the year – primarily because of worries about the US economy. Until a drugs deal is announced, they will probably continue to tread water. Hoechst's cash-flow may be substantial. But unlike BASF and Bayer, it has net debt, making investors more concerned about acquisitions. Provided the group can allay such fears, the combination of strong volume growth and the full benefit of price rises should drive Hoechst's shares forward.

FT WEATHER GUIDE

Europe today

Most of Europe will be dry and tranquil as a result of a zone of high pressure over Poland. Snow will fall over north-western Scandinavia and there will be light daytime frost in the interior of Sweden and Finland. Southern Finland and Sweden will be unseasonably warm. However, strong winds and light rain will buffet the Norwegian coast.

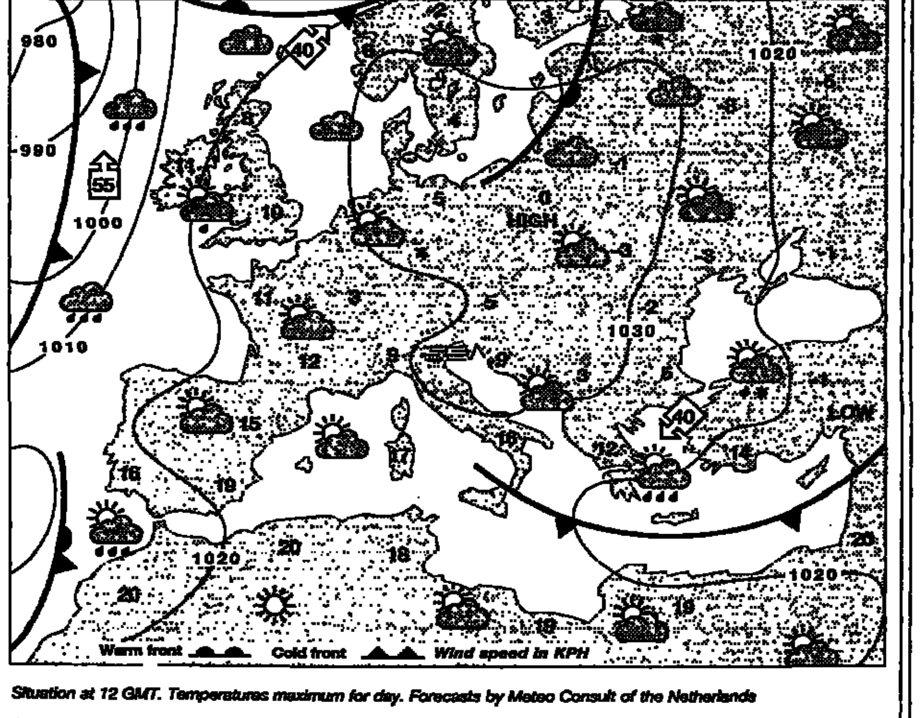
The eastern Mediterranean will remain unsettled with snow in the Turkish Mountains and strong winds with rain or thunder showers elsewhere. Temperatures will not fall below freezing east of Germany, Slovakia and Romania. Russia will have moderate to severe daytime frost.

Western Europe will be dry, with low cloud, light fog, and sunshine. Moist air will mean cloud over south-eastern France and Spain.

Five-day forecast

Beginning on Friday and during the weekend, unsettled conditions will develop in Western Europe, especially in the British Isles and Scandinavia.

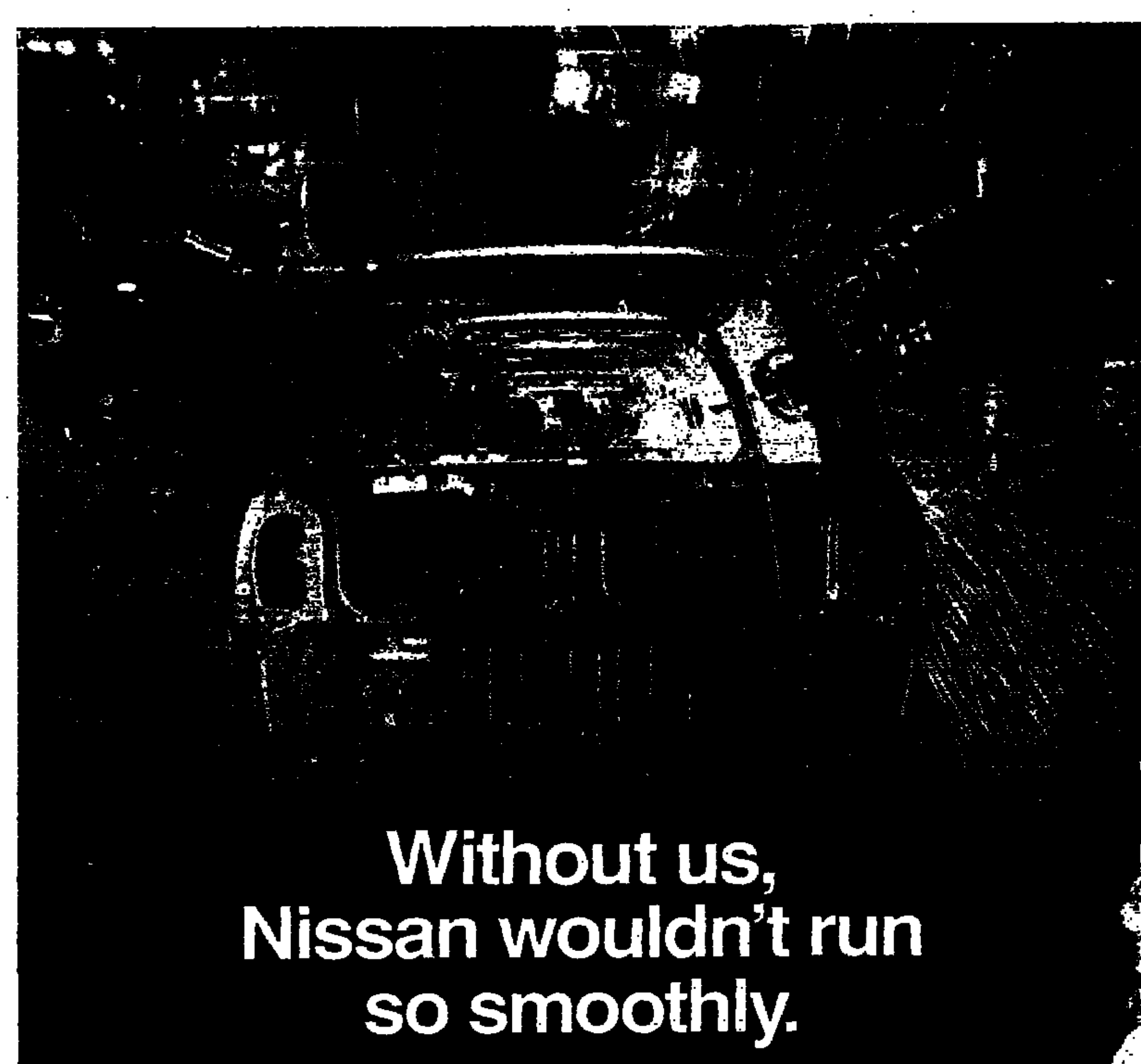
On Saturday, heavy rain and gales will lash the Irish and Scottish coasts.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Belfast	fair	10	Casablanca	sun	20	Gibraltar	fair	17	Manchester	fair	10	Rome	sun	16
	Celsius		Belgrade	cloudy	1	Chicago	cloudy	6	Glasgow	fair	9	Manila	thund	32	S. Frsco	fair	15
Abu Dhabi	sun	29	Berlin	fair	1	Cologne	sun	9	Hamburg	fair	5	Melbourne	fair	21	Seoul	rain	8
Accra	sun	33	Bermuda	fair	25	Dakar	fair	28	Helsinki	fair	3	Mexico City	fair	22	Singapore	shower	31
Algiers	sun	21	Bogota	cloudy	21	Dallas	sun	19	Hong Kong	fair	27	Miami	cloudy	26	Stockholm	fair	5
Amsterdam	fair	8	Bombay	sun	33	Delhi	sun	25	Honolulu	fair	28	Milan	fog	9	Strasbourg	fair	2
Athens	shower	10	Brussels	fair	8	Dubai	sun	29	Istanbul	thund	6	Montreal	cloudy	3	Sydney	shower	23
Atlanta	fair	16	Budapest	fog	4	Dublin	fair	12	Jakarta	shower	31	Moscow	cloudy	-8	Tangier	sun	20
B. Aires	sun	25	C.hagen	fair	4	Dubrovnik	fair	12	Jersey	fair	8	Munich	fair	3	Tel Aviv	shower	19
B.ham	fair	9	Cairo	fair	19	Edinburgh	fair	9	Karachi	sun	31	Nairobi	cloudy	25	Tokyo	fair	16
Bangkok	fair	33	Cape Town	sun	23	Faro	fair	20	Kuwait	sun	24	Naples	sun	14	Toronto	fair	6
Barcelona	cloudy	16	Caracas	sun	29	Frankfurt	fair	6	L. Angeles	sun	21	Nassau	fair	28	Vancouver	rain	7
Beijing	fair	2	Cardiff	fair	10	Geneva	fair	6	Las Palmas	fair	24	New York	fair	8	Venice	fair	9
									Lima	cloudy	23	Nice	fair	15	Vienna	fair	3
									Lisbon	fair	18	Nicosia	shower	14	Warsaw	fair	-1
									London	fair	11	Oslo	fair	2	Washington	fair	11
									Lux.bourg	fair	4	Paris	fair	6	Wellington	rain	14
									Lyon	cloudy	9	Perth	sun	31	Winnipeg	snow	2
									Madeira	fair	19	Prague	fair	0	Zurich	fair	2
									Madrid	cloudy	14	Rangoon	fair	32			
									Majorca	fair	19	Reykjavik	rain	6			
									Malta	cloudy	18	Rio	thund	26			



FINANCIAL TIMES SURVEY

MANAGEMENT BUY-OUTS

Thursday December 1 1994

It has been a good time for buy-out financiers as they raise new funds. But there may not be enough deals to go round, warns **Richard Gourlay**

MBOs weave their special spell again

Venture capitalists in the UK will look back on 1994 as a special year. Financiers will probably provide management buy-outs with £3.5bn of equity, making it the best year since 1989 when £6.5bn was invested, according to accountants KPMG Peat Marwick.

On the fund-raising side, the big MBO equity providers have successfully raised large new funds after a burst of flotations early in 1994 that greatly improved performance figures. Candover, Morgan Grenfell Development Capital, Baring Capital Investors and Charterhouse have all raised funds in a year that has seen more than £1.5bn of new money come into the industry.

At the same time, banks that had almost entirely withdrawn from lending to MBOs, after losing their shirts in the late 1980s, are able and willing lenders again.

Whereas two years ago, a venture capitalist would have been hard pushed to raise debt from banks other than National Westminster Bank and the Bank of Scotland, there is now a desire to lend that verges on the incautious.

From the point of view of companies trying to raise money, therefore, there has rarely been a more propitious time. The trauma managements endure in the process of structuring and managing an MBO is as great as ever (see our hypothetical example on page 12 of this survey). But the potential rewards – both financial and in terms of personal fulfilment – also remain just as attractive.

As for companies considering selling subsidiaries to management or a management buy-in team, the market is also healthy. The reason? The increased supply of money means competition between financiers is fierce. Venture capitalists increasingly find themselves bidding against each other in auctions.

There is therefore no question about the popularity of buy-outs. But hanging over MBO financiers, as the industry matures in the UK, is concern that there might be too much capital around for the number of deals available.

"Over the last few years, venture capitalists have been managing flotations from their portfolios and more latterly raising new funds," says Chris Beresford, head of corporate finance at KPMG. "Now they are keen to invest but there are not enough deals to go around. Some houses are finding it hard to do enough deals to justify the number of people they have," he added.

Put another way – it is only a matter of time before someone finds a way to pay too much for a business as happened in the late 1980s, notably with the purchase of the Magnet and Isosceles.

"With this wall of money there is no doubt that the market will be very aggressive in the next 18 months," says Jon Moulton, who moved from Schroder Ventures this year to Apax Partners.

Despite such warnings, the venture capital industry does appear to be maturing. Last week, a syndicate led by Prudential Ventures pulled out of a deal to buy National Parking Corporation because they said the vendor was asking too high a price. In less responsible times, the venture capitalsts might well have put more debt into the financing, taken a more optimistic view of growth prospects and put the £600m deal to bed.

Predictions that over-capacity in the industry would lead to a shake-out have not, however, been borne out this year.

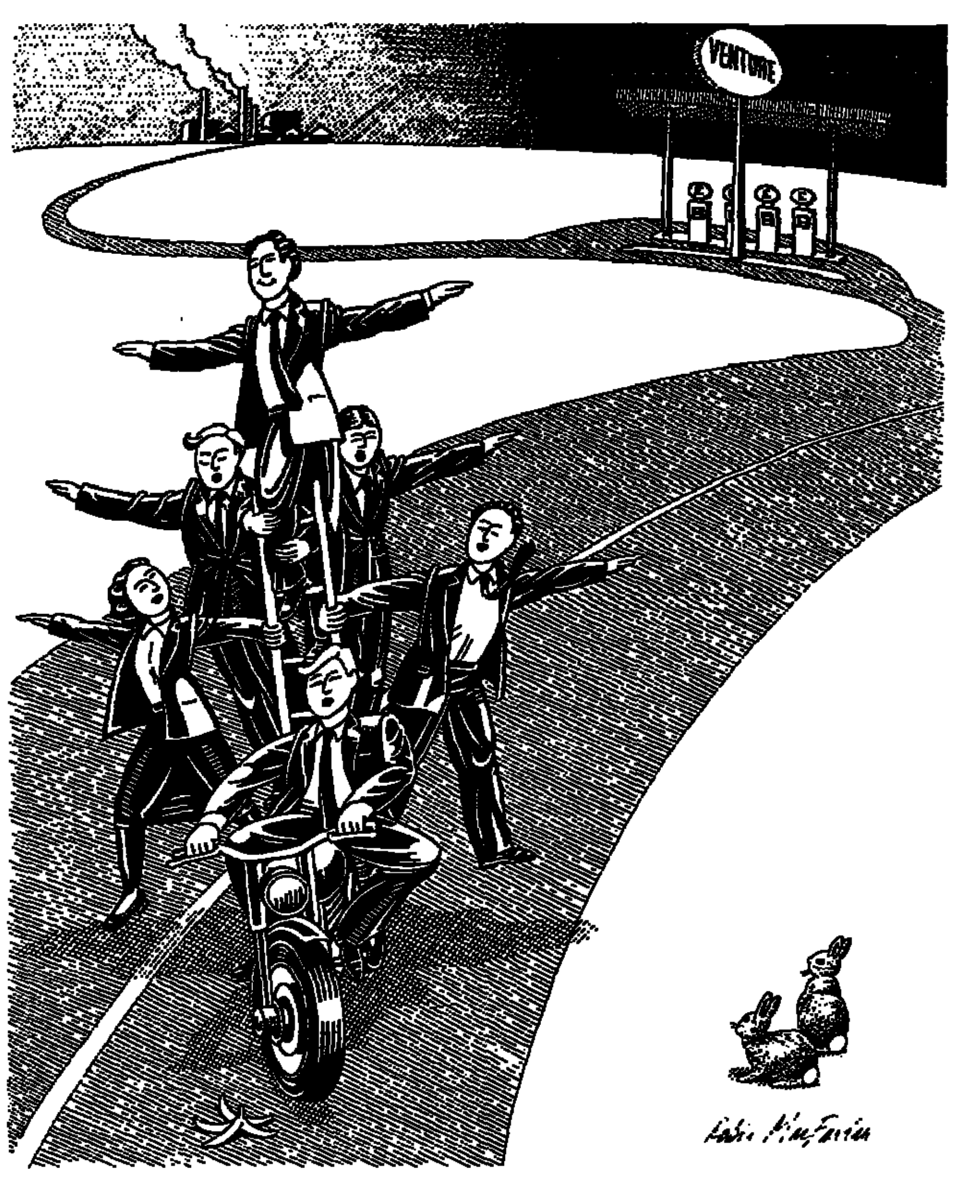
Grosvenor Ventures was taken over by Mercury Development Capital and at the higher-tech end of the market, Trinity Partners merged with Advent International. Europe.

But elsewhere there have been almost no mergers or casualties. The fate awaiting those venture capital houses whose records would not support a new fund-raising is probably death by a thousand cuts as management fees slowly decline to a level that no longer covers overheads.

Competitive pressures have been increasing for other reasons, too. Large conglomerates have either traded out of problems or sold most of the obvious subsidiary businesses to management. And the subdued level of mergers and acquisitions' activity has meant there have been few disposals.

As a result, competitive pressure is increasing. "When new deals arise, everyone is trampling over the same patch and it is getting pretty bare of vegetation," says Mr Beresford.

It is not an isolated view. "This has been a great year for venture capital," says Charles Peal, managing director of



Legal & General Ventures. "A lot of people's track records have solidified into some pretty impressive records. But I am slightly worried looking forward."

Mr Peal says at least a dozen equity providers could lead at least three £50m deals a year – meaning there is capacity for at least 36 deals. On average, however, there have been only 11 such deals a year since 1992.

Shortly to be adding to this capacity is Apax Partners. Mr Moulton is about to announce a new vehicle – not a fund – that he says will allow Apax to invest up to £100m in a business without having to syndicate the deal.

Not surprisingly, the hunt is on among venture capitalists to find ways to stand out from the crowd.

Some organisations, such as Schroder Ventures, have firmly established reputations for doing more complicated transactions – turnarounds, or transnational deals. Mr Moulton aims to do similar deals at Apax. Others like, CVC Capital Partners and Baring Capital, have successfully pushed in to Continental Europe. Some can claim to be faster decision-makers or more knowledgeable about certain markets. But for others, there is little choice but to slug it out on price.

What is more, there is an increasing incidence of the so-called financial deal, where the venture capitalist approaches potential vendors directly, for instance with the suggestion that a division does not fit and should be sold. In this respect, UK buy-outs are looking more like US-style leveraged buy-outs – though for the moment they carry less debt than their notorious transatlantic cousin.

Ernst & Young believes this is the most significant development in the buy-out market this year. "It is a function of the weight of money in the market and the desire of the larger funds to find some homes for that money as quickly as possible," says Martin Aguss, a member of the Ernst & Young buy-out team.

A variant is the purchase of a job lot of divisions, a route taken by Schroder Ventures when it bought a collection of instrumentation and transducer businesses, which it called Solartron, from Schlumberger late last year. The intention was to eliminate losses at one of the four companies, build the others and sell the restructured business. As it happened, the entire business was bought by Roxboro, before these plans came to fruition.

This was a particularly rapid realisation. The more common exit route for venture capitalists – flotation – has been more troublesome lately, with 1994 being a year of two halves.

According to Tom Attwood, director of marketing, new issues, at stockbrokers James Capel, small company fund managers were having to evaluate two new issues a day in the early spring, many of them former buy-outs.

Then the train hit the buffers. New issues like MDIS and Aerostructures Hamble, issued profit warnings only months after flotation. Institutional investor confidence in all flotations was seriously damaged.

"Venture capitalists will have to expect a comparatively low or lower potential exit price because of the recent publicity," says Mr Attwood. "And (institutional) investors will not only be exerting their muscle to get a lower price they will also be looking for the very highest quality."

This does not work entirely to venture capitalists' disadvantage. Finding an exit for smaller companies may be temporarily more difficult. But the low values that the stock market is attributing to small companies may also be reflected in the price the venture capitalists pay for businesses.

What is more, research by James Capel and others suggests that former MBO companies outperform their sector after flotation, notwithstanding the aforementioned exceptions.

Venture capitalists would say this is the MBO continuing to weave its beneficial spell on the business.

IN THIS SURVEY

Editorial production: Roy Terry
Illustration: Robin MacFarlan

Case study: COMPASS

Acquisitive adventurer

Compass, the catering and healthcare group bought by the management in 1987, surprised the City last April with a rights issue to raise almost £146m towards the cost of buying the third biggest caterer in the US for $450m.

The purchase made Compass the third biggest catering company in the world, behind ARA and Marriott of the US. However, Francis Mackay, chief executive, emphasises that the US rivals are domestic businesses, while Compass is international.

The US deal is indicative of the rapid expansion of Compass since the £160m MBO from Grand Metropolitan in 1987, which was then the biggest deal of its kind in the UK. At the time the genial Mr Mackay was finance director, while Gerry Robinson, now chief executive of Granada Group, was chief executive.

"I'm sure we did have problems with the buy-out, but it did seem to go in a very regular and quick way," Mr Mackay recalls. "There were no black holes – we knew the business. Gerry Robinson had been there for three years and I had been there for one year as finance director and managing director of the hospitals."

He describes the negotiations with GrandMet as "tough, but straightforward. The handling of the disposal was very well managed and ably done."

The speed of the deal that was struck reflected the maturity of the MBO market at the time and the obvious attraction to venture capitalists.

"The characteristics of the business were good for venture capitalists," Mr Mackay explains. "The business had enormous growth potential, a strong cash flow, and had been around for 50 years."

Furthermore, the management had the luck to move when interest rates were still around 7 per cent.

The subsequent rise in interest rates was behind the rapid flotation, which followed at the end of 1988 and valued the business at about £200m.

"At the time of the MBO we had capping facilities to cover interest payments for two years," Mr Mackay explains. As interest rates started to rocket, the group decided to float quickly to get more equity in.

After the flotation at the end of 1988, the group *quickly turned its attention* to growing the core businesses of catering and healthcare

The first results as an independent company showed the potential. Pre-tax profits in the year to the end of September 1988 soared from £5m sterling to £13.3m on sales ahead from £261m to £277m.

Nevertheless, only 68 per cent of the offer for sale was taken up at 245p per share. It must have irritated the investors who steered clear in the early days to see the first results as a listed company – pre-tax profits up from £13.3m to £23.3m.

Mr Mackay blames the poor take-up of shares on the timing of the float, which coincided with redundancies at several brokerage houses. "They took their eye off the ball," he says. "Immediately after the float the shares went up by 1p a day for two-and-a-half months."

The group quickly turned its attention to growing the core businesses of catering and healthcare. Within two years of the flotation it had got out of property services, building services and security.

"You have to get quickly back on the growth part," explains Mr Mackay. "An MBO brings financial discipline – in the first years the debt structure means you want cash flow to be as rapid as possible. Then you need to start looking for investment and growth."

The group has been growing ever since, with the only apparent setback coming in 1992 when it failed to acquire principal rival Gardner Merchant from Forte.

However, with the benefit of hindsight Mr Mackay believes that losing Gardner Merchant has been more beneficial. "We have expanded into new market sectors and broadened our market base. Gardner would have given us much more volume – but in one sector."

At the end of 1993 the group was able to report a 31 per cent rise in profits (£41.5m for the year ended September) on the back of good performances by its acquisitions.

Turnover moved ahead 44 per cent to £497m, including a contribution of £156.2m from acquisitions, mainly reflecting the purchase of SAS Service Partner's airport catering business via a rights issue, and the acquisitions of Travellers Fare, the station caterers, and Letheby Christopher, the sports and events caterer.

This year's deal to buy US caterer Canteen Corporation was by far Compass's most adventurous acquisition. Mr Mackay described the deal at the time as "a one-off opportunity to buy into the world's biggest food market at a price that is sensible".

The deal was funded by a 6-for-19 rights issue, priced at 270p. Earlier this week, the shares were at 328p, giving the group a market capitalisation of almost £780m.

Since the 1987 MBO, turnover has grown from £250m to a pro forma £1.5bn. At the time of the float the management held 10 per cent of the shares, but now holds only 2 to 3 per cent, mainly because of the expansion.

But Mr Mackay points out that some of the original venture capitalists still have a stake in the group, the biggest being the Prudential with just under 3 per cent.

David Blackwell

ESTIMATE OF TOTAL UK MBOs

Year	Number	Value (£m)	Average Size (£m)
1981	180	130	0.7
1982	200	550	2.8
1983	220	240	1.1
1984	200	260	1.3
1985	250	1,070	4.3
1986	300	1,300	4.3
1987	350	3,230	9.2
1988	400	5,070	12.7
1989	500	6,530	13.1
1990	550	2,850	5.2
1991	500	2,640	5.3
1992	520	3,020	5.8
1993	510	2,810	5.5
1994 (to date)	400	2,550	6.4
TOTAL	5080	32258	6.4

Source: KPMG Corporate Finance, October 1, 1994

Participants: Richard Gourlay looks at a familiar picture

Leader 3i hones its competitive skills

As the UK management buy-out industry enters an era of respectable maturity, a glance down the top 10 deal leaders, lenders, mezzanine providers and arranging accountants reveals a familiar picture.

There has been some rearrangement in the middle ranks, with some houses elbowing their way a few places higher and others slipping. But there are few new names, upsets or significant departures.

Below the surface, however, there are a number of developments that hint at the way the management buy-out business could develop in the UK in the next few years.

Funds are being raised in novel ways; banks not seen since the late 1980s are protesting they never left the market and laying out their wares once more; and the largest equity provider, 3i, is honing its competitive skills under the public gaze of a new set of shareholders after its summer flotation.

On the equity side, 3i remains at the top of the pile in terms of numbers of deals led, its 17 transactions more than double the total for Natwest, the nearest rival. Focused on smaller deals, 3i's average deal at £20m is only a quarter the size of those backed by CINVen, which leads the funding table with total funding of £561m.

But before its flotation, 3i introduced the first of a series of new funds which could put providers of equity to middle-sized deals under considerable competitive pressure.

Its newly-launched fund for co-investing with UK institutions will invest in management buy-outs larger than £10m. The £150m fund – half provided by 3i – will not only earn the group a management fee.

The fund will also allow 3i to reduce the amount it is forced to syndicate, or hand on, to other venture capitalists in the market.

It will reduce third-party access to deals originating from 3i's network of regional offices.

And the new fund will give 3i greater fire power and appetite for the mid-sized MBO deals, an area where it has not recently been strongly represented.

This could also increase the trend for venture capital houses to develop regional offices or national office networks to move closer to the local accounting firms that are an increasingly important source of deal flow.

It might also lead to some houses considering moving out of London altogether to offices nearer the source of deals.

On the debt side, 1994 has been a year of transformation. Bank of Scotland and NatWest, the most visible lenders over the past three years, have been joined by an army of banks

Continued on next page

EQUITY DEAL LEADERS

1 October 1993 - 30 September 1994	Number of Deals	Total Funding £m	[illegible]
3i	17	346	[illegible]
NatWest Ventures	8	223	[illegible]
CINVen	7	561	80
Montagu Private Equity	7	197	28
Electra Kingsway	4	223	56
Schroder Ventures	4	85	[illegible]
Phildrew Ventures	3	73	24
Legal and General Ventures	3	50	17
CVC Capital Partners	2	150	75
Mercury Development Capital	2	87	44
Candover Investments	2	48	24
European Acquisition Capital	2	47	24
Murray Johnstone Private Equity	2	40	20
Gartmore Venture Capital	2	24	12
Granville Private Equity Managers	2	22	11
Others	14	803	57
None/Not Known/(Duplication)	(5)	(673)	
TOTAL	76	2,409	32

Qualification: £10 million plus deals, acted in two or more
Source: KPMG Corporate Finance, October 1, 1994

EQUITY DEAL LEADERS

January 1, 1990 – September 30, 1994

	Number of Deals	Total Funding £m	Average Value (£m)	Address	Telephone
3i	49	999	20	91 Waterloo Road, London, SE1 8XP	071-928-3131
NatWest Ventures	20	610	31	135 Bishopsgate, London.EC2M 3UR	071-375-5000
CINVen	19	1,501	79	Hobart House, Grosvenor Place,London, SW1X 7AD	071-245-6911
Schroder Ventures	16	513	32	20 Southampton Street,London, WC2E 7QG	071-632-1000
Montagu Private Equity	15	428	29	10 Lower ThamesStreet, London, EC3R 6AE	071-260-0232
Phildrew Ventures	12	311	26	Triton Court, 14 Finsbury Square, London, EC2A 1PD	071-628-6366
Candover Investments	10	723	72	20 Old Bailey, London, EC4M 7LN	071-489-9848
Legal and General Ventures	10	532	53	3 Queen Victoria Street, London, EC4N 8EL	071-489-1888
Electra Kingsway	9	467	52	65 Kingsway, London, WC2B 6QT	071-831-6464
Charterhouse Development Capital	7	526	75	85 Watling Street, London, EC4M 9BJ	071-248-4000
Morgan Grenfell Development Capital	7	507	72	23 Great Winchester Street, London, EC2P 2AX	071-588-4545
CVC Capital Partners	7	410	59	Hudson House, 8-10 Tavistock Street, London, WC2E 7PP	071-438-1489
Granville Private Equity Managers	7	133	19	Mint House, 77 Mansell Street, London, E1 8AF	071-488-1212
Prudential Venture Managers	6	315	53	1 Waterhouse Square, Holborn Bars, London, EC1N 2ST	071-831-7747
Kleinwort Benson Development Capital	6	311	52	10 Fenchurch Street, London, EC3M 3LB	071-956-6600
Murray Johnstone Private Equity	6	99	17	7 West Nile street, Glasgow, G1 2PX	041-226-3131
Mercury Asset Management	5	192	38	33 King William Street, London, EC4R 9AS	071-280-2512
Swiss Bank Corporation	4	144	36	1 High Timber Street, London, EC4V 3SB	071-329-0329
Foreign and Colonial Ventures	4	90	23	8th Floor, Exchange House, Primrose Street, London, EC2A 2NY	071-782-9829
Barclays Development Capital	4	78	20	Pickfords Wharf, Clink Street, London, SE1 9DG	071-407-2389
Gartmore Venture Capital	4	46	12	16-18 Monument Street, London, EC3R 8AJ	071-782-2000
Lloyds Development Capital	3	187	62	48 Chiswell Street, London, EC1Y 4XX	071-600-3226
Hambros	3	103	34	41 Tower Hill, London, EC3N 4HA	071-480-5000
Apax Partners	3	96	32	15 Portland Place, London, W1N 3AA	071-872-6300
Causeway Capital	3	40	13	7 Hanover Square, London, W1R 9HE	071-495-2525
Baring Capital Investors	2	486	243	140 Park Lane, London, W1Y 3AA	071-408-1282
Bankers Trust	2	71	36	1 Appold Street, Broadgate, London, EC2A 2HE	071-982-2500
Bank of Scotland	2	48	24	Uberior House, 61 Grassmarket, Edinburgh, EH1 2JF	031-442-7777
European Acquisition Capital	2	47	24	Scandinavian House, 2 Cannon Street, London, EC4M 6XX	071-280-7500
Henderson Venture Managers	2	30	15	3 Finsbury Avenue, London, EC2M 2PA	071-410-4415
Royal Bank Development Capital	2	24	12	26 St Andrew Square, Edinburgh, EH2 1AF	031-556-2555
BancBoston Capital	2	22	11	39 Victoria Street, London, SW1H 0ED	071-932-9053
Close Investment Management	2	22	11	12 Appold Street, Broadgate, London, EC2A 2AA	071-426-4000
Others	31	1,553	50		
None/Not Known/(Duplication)	(17)	(1,422)			
TOTAL	269	10,242	38		

Qualification: £10m plus deals, acted in two or more

Source: KPMG Corporate Finance, October 1, 1994

Case study: GARDNER MERCHANT

Impressive profits but no hurry to float

Gardner Merchant, bought by the management from Forte for £402m at the end of 1992, has been reporting its results as if it had already come to market.

But those who were expecting it to float this year have been disappointed. Presenting an impressive increase in interim profits in October, Garry Hawkes, the chief executive, said the group was under no pressure to float.

"Our investors are happy with their returns, and clearly the current market conditions are not very encouraging," he said. In the same week the depressed conditions led three other companies to defer flotation plans.

Gardner's management buy-out succeeded only after 12 months of uncertainty. An attempt by the management to acquire the business, backed by Kohlberg Kravis Roberts (KKR), the New York-based leveraged buy-out specialists, had failed earlier in the year, as did a takeover proposal by Compass, its main rival in contract catering.

Forte wanted to sell Gardner to concentrate on its international hotel and restaurant businesses. However, it retained a 25 per cent stake when a consortium led by venture capital company CinVen mounted a successful bid.

Mr Hawkes, the managing director, and other senior staff subscribed for 8 per cent of the company. He said the buy-out was "an attempt to bring back ownership and hopefully motivation" to the managers who had delivered 15 per cent growth for Forte in recent years.

The first year of independence from Forte was one of the company's most successful

At the time Rocco Forte, chairman of Forte, said the investors hoped to float the group in four years – although other observers were talking of a listing as early as the end of this year.

The omens looked good. In addition to operating in rapidly expanding markets as government contracting out increased, the group had the advantage of requiring very little capital.

Debt was also unlikely to be much of a burden because the interest rates on most of the £200m of senior debt was hedged long term.

Furthermore Gardner was used to paying most of its profit and cash flow to Forte in dividends.

The liberating effects of the MBO were soon obvious. By May, Mr Hawkes revealed that the company had sold more contracts in the first two months of 1993 than during the whole of the previous year.

The results for 1993 showed just how much Gardner was distracted by bids and buy-out plans in 1992. In the financial year ending January 31, 1994, profits before interest and tax rose by more than 50 per cent and turnover burst through the £1bn barrier.

Strong cash flow enabled the group, which employs 47,000 people worldwide, to cut its senior debt from £200m to £163m.

Mr Hawkes described the first year of independence as "one of the most successful years in our history". He cited strong morale, helped by the fact that 1,000 managers were shareholders.

Their 8 per cent stake was expected to rise to 20 per cent on flotation. A further 6,800 employees had been granted the right to share options.

Since then the group has made its first significant acquisition, doubling the size of its business in the US with a

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3i hones its competitive skills

Continued from previous page

seeking to put assets on their books.

Notable among the new arrivals is the Royal Bank of Scotland, whose head of corporate finance, Leith Robertson, moved from Bank of Scotland. Aggressively back in the market are Morgan Grenfell, Midland Bank and Samuel Montagu.

As a result commitment fees and the typical interest rate spread have both fallen to below two percentage points.

Other banks with recently awakened appetites have been less responsible. Some have tried to buy market share, pushing up the price of deals and offering more debt to back the higher valuations. While this has not yet led to deals being structured with very demanding levels of gearing, the appetite of some banks is making some equity providers distinctly edgy.

This willingness to lend has had a detrimental knock-on effect for the mezzanine market where Intermediate Capital Group - which also floated this year - remains by far the largest debt supplier.

The greater availability of pure debt has meant that the amount of mezzanine supplied so far this year in the UK has fallen quite sharply.

In effect the banks are prepared to take more risk for a simple debt reward and are to some extent "stealing mezzanine's clothes", according to one observer.

One of the most intriguing changes in 1994 has been the way new funds are being raised. The big funds, like Candover and Charterhouse, appear to have raised large funds in the conventional manner, involving long-term commitments from fee-paying institutional investors, mainly in the US.

But some new fund raisers are rocking the boat. For example, 3i is only charging a management fee on its larger buy-out fund when it has commited funds to an investment. Similarly, Legal & General, which last year raised funds for the first time from sources other than its parent, has ruffled feathers.

"The standard partnership has a five-year investment programme," says Charles Peal, managing director of Legal & General Ventures. "Ours is a one-year investment programme. You can join it for that year and if we have not spent the money your commitment is released." The investors have the option to renew or not to renew.

Where Peal has made himself particularly unpopular is in the structure of fees. In the first year L&G looked beyond its parent for funds. It charged a management fee only when the money was committed and then at half the prevailing market rate. This year, because deal flow is slower it is charging a 0.5 per cent management fee and 1 per cent after funds are commited.

L&G hopes to raise £150m a year – two thirds from its parent – on this basis. If the practice spread, fund-raising would become an annual event – a prospect that weary venture capitalists, who have spent the past 18 months raising new funds, find too appalling for words.

It is too early to say if this practice will spread. Low commitment fees and annual rollover of funds do not necessarily go hand in hand with good investment decisions.

And there are other drawbacks. As Chris Beresford, head of corporate finance at KPMG, says: "It's a very high risk strategy – a bit like sitting down on the eve of your wedding anniversary and asking your wife if she wants to remain married to you."

Small MBOs: **Peggy Hollinger** on New World Payphones

Successful connection

Richard Thompson will be paying a £1m phone bill this year, and he could not be happier. The bill is hard evidence that the chief executive of New World Payphones is making some headway into British Telecom's stranglehold on the vast public telephone market.

Less than a year ago, however, Mr Thompson's company, which installs and maintains payphones linked to BT's network, was facing the possibility of being cut off just when prospects seemed brightest.

New World had won a number of substantial contracts, including one to install payphones on the London Underground. Yet its parent company, Antah Holdings Berhad, the diversified Malaysian group, was reluctant to provide the additional working capital to carry out the work.

For years NWP had been making losses. Antah was now being asked not only to fund those losses, but to provide additional support to fund the company's growth until it could return to profit. That required what one of the small company's eventual backers describes as "an act of faith".

"New World needed resources to take it past the break-even point," says Ian Hawkins of Phildrew Ventures, the venture capital firm which supported an £8.15m management buy-out in May this year. "The company had a substantial order book and prospect list. If one was prepared to make that act of faith, give it all-equity funding and sufficient resources to install that order book, one could get it rapidly through break-even and into the virtuous cicle of generating cash to fund its own growth."

Six months after the MBO, New World is "profitable, but it is still investing faster than it is making profits", Mr Hawkins says.

New World is just one of the rising number of smaller management buy-outs completed in the past year. Smaller MBOs may be getting more popular, but that does not mean it is any easier for management to find backers.

In general, small MBOs of between £1m and £10m take up more time, require more help through the growth period and are more difficult to exit than the larger buy-outs.

"With a bigger company the prospect of a float is obvious," says Paul Jobson of ECi, the venture capital firm which specialises in smaller buy-outs. "With the smaller one it may not be big enough and will be more dependent on the trade sale."

Smaller MBOs also present greater risk for potential funders. "Larger companies have a certain momentum in place," says Mr Jobson. "You need to do more through due diligence to get comfortable with the risk of backing buy-outs on smaller companies which may not have that momentum."

Smaller MBOs may be getting more popular, but that does not mean it is easier to find backers

One of the biggest risks from the venture capitalists' point of view is often management.

"A bigger company can afford a bigger and better management team," says Mr Hawkins of PhilDrew Ventures. "Usually, in a smaller company, the chief executive has taken on a number of responsibilities." This, in many cases, means a flawed or over-stretched management.

The first demand from potential backers is usually to strengthen the team, with candidates introduced by venture capitalists.

This does not mean that smaller companies are forced to undergo what the trade calls a Bimbo – a combined buy-in and management buy-out. Bimbos generally mean the introduction of a chief executive.

In smaller buy-outs, the chief executive remains and a few "grey hairs" are brought in to guide and advise the newly independent management.

In New World's case, Phildrew sought to balance the youthful team – Mr Thompson is 36 – with the experience of 51-year-old Derek Harris, former chairman of Linx Technologies. There are also plans to appoint a part-time finance director.

"It was felt it would be useful to have someone on board who was used to going through the growing pains," Mr Hawkins said. "So when they get over-excited there will be someone to calm them down and help them to get on with the business."

Once the management team is strengthened, smaller companies will be under greater pressure to produce organic growth than their larger colleagues.

Growth by acquisition is an option reserved for larger companies, where cashflow can be used to service debt. Small, growing businesses need every penny to fund their everyday businesses.

Smaller buy-outs are generally structured with these pressures in mind. Large amounts of debt are seen to be inappropriate for young growing companies. "With an already high-risk transaction it is imprudent to add to the risk by overloading it with debt," says Mr Jobson.

This is not done merely out of generosity. Venture capitalists need a profitable exit which is not likely to materialise unless these smaller companies reach a certain critical size. To do this purely by organic growth is a challenging task.

Venture capitalists also demand higher returns from smaller MBOs. According to Mr Hawkins, venture capitalists would expect returns of about 25 per cent per annum from the very biggest buy-outs of £100m or more. Development capital could call for returns of up to 50 per cent per annum.

Yet he disputes that this means there is greater value in the small company arena. In the end, the larger MBOs are inherently the better bets, he says.

"Higher returns are generated by larger transactions because the degree to which the pricing falls as you get to the smaller deal is not as great as the degree to which the risk increases," says Mr Hawkins.

Mr Jobson of ECi disagrees. "The big buy-out market is over-farmed so the pricing gets silly," he says. "There is value to be had in the small sector, but it also means there is more work to do."

Case study: NATIONAL PARKING CORPORATION

The road to the year's biggest buy-out closes

Signpost to a buy-out: but the direction was changed last week

Almost 45 years ago two men, one a former Westminster City Council trainee surveyor, the other a 24-year-old ex-soldier, began buying up second world war bomb sites and offering car parking space for 1s 6d (7.5p) a time.

As car ownership and demand for parking spaces in the UK's increasingly congested inner cities grew, National Parking Corporation, the parent of National Car Parks, flourished.

Today, NCP runs 600 car parks and owns all but 40 of them.

The average cost of parking is £2.20, although prices are higher in some areas, particularly in London.

Bolstered by property profits, a coach-hire business and a rapidly growing breakdown and recovery service, the group reported pre-tax profits of £50.5m – including £28.9m from car parking – in the year to March 25, on turnover of £265.3m.

It is not surprising that the desire of the founders to sell one of the UK's most successful private companies should have become one of the year's hottest topics among venture capitalists.

But last Friday, the deal collapsed because the syndicate led by Prudential Venture Managers (PruVen) was not prepared to pay the price the vendor was demanding.

There is little doubt that the business will eventually be sold.

The only question is the identity of an eventual buyer.

With car parking revenues and profits rebounding after the recession, it is an obvious target for venture capitalists. NPC's large and predictable cash flows could support a high level of debt.

In addition, it is likely that if NCP and Green Flag, the fast-growing owner of National Breakdown Recovery and Home Emergency Service, were sold separately they would together be worth more than the parent company.

Most of NPC's equity is still in the hands of the group's two founders, Sir Donald Gosling, now aged 65, and Ronald Hobson, aged 73, making it ideal for a buy-out.

Structuring the deal was complicated by the fact that in 1986 about 28 per cent of NCP's equity was placed with about 40 institutional investors at 155p-a-share.

Since then the stock has traded in the over-the-counter market under rule 4.2, and it fell from 550p to 450p, following last week's announcement.

The venture capitalists therefore had to negotiate with the vendors under stock exchange takeover rules, something to which they are not accustomed.

In addition, existing institutional investors wanted to be offered the opportunity to roll over their existing shareholdings into shares in the new acquiring company.

Among the original institutional investors from the 1986 placing are Royal Insurance, and the Prudential itself, which initially invested about £750,000 in the stock.

Despite the placing, Sir Donald and Mr Hobson, the joint chairmen, retained tight control of the group and, together with charitable trusts of which they are directors, still hold 73.2 per cent of the equity including personal stakes totalling 68 per cent.

However, the issue of succession had become increasingly important to the joint chairmen. They had taken a paternalistic view of the company they created and were keen to ensure continuity for the management, including the two deputy chairmen, Gordon Layton and John Flack.

Accordingly, they turned down the option of a share disposal, via a flotation. Morgan Grenfell, NPC's financial adviser, also received several offers from others. However, the joint chairmen reportedly felt more comfortable choosing a venture capital consortium which included institutions with which they were already familiar.

Discussions began at the start of the year and heads of terms were signed at the end of June, prompting publicity-shy NPC to issue a brief statement to the stock exchange confirming that it was involved in negotiations which might lead to a bid.

The consortium members included Electra, NatWest Ventures, Charterhouse Development Capital, Cinven, Montagu Private Equity and Royal Bank Development Capital.

Due diligence was completed without problems – the only barrier to agreement was money.

Many more of the British Venture Capital Association's 100 members have expressed an interest, but, given NPC's size, only the largest operators could consider the deal, and many of these had joined with PruVen.

The consortium would have provided around 50 per cent of the cost as equity, with the remainder funded by bank debt, which would have been arranged by National Westminster Bank.

NPC's solid asset base, quality of earnings and its strong cash flow from NCP, could have supported substantially more debt.

But Prudential Venture Managers was keen that the buy-out should be conservatively financed, so that the group could continue to expand without being burdened with debt.

Early asset disposals were ruled out by PruVen, although a longer-term trade sale of Green Flag and flotation of NCP would have been likely.

Under this scenario, equity investors would have had to settle for more modest returns than they are accustomed to, in exchange for a lower level of risk.

Enthusiasm among the banks for the proposed deal also underlines the shift in the balance of power between equity and debt providers in the leveraged buy-out market. The banks, shunned by cash-rich domestic corporate borrowers, were said to have been falling over themselves to win a slice of the deal, which raises the possibility of a more leveraged buy-out.

With PruVen out of the frame, Sir Donald and Mr Hobson will continue to run the business and collect their dividends.

However, their intentions have been clearly signalled, and it is only a matter of time before other institutions decide to join the negotiating table.

Paul Taylor and Simon Davies

Impressive profits

Continued from previous page

$100m deal to buy part of Morrison Restaurants' contract food division.

The deal made Gardner the fifth biggest contract caterer in the US, although it remains behind arch-rival Compass Group.

The acquisition took Gardner into 40 states, up from 18, and the number of US employees rose from 5,500 to 13,000. US turnover is expected to rise from $180m to $400m, and account for 25 per cent of total group turnover.

"It fits brilliantly, and we are very happy with it," says Mr Hawkes.

The group now has a good presence in the southern states, whereas it was stronger in the north, and has further strengthened its position in the business and industry market.

The deal was financed through increased bank debt, taking the total to about £225m. But in August the group completed a £240m refinancing package with the Royal Bank of Scotland and five other banks.

The package included a £155m five-year loan to refinance borrowings left over from the MBO; a $100m five-year loan to fund the Morrison's acquisition; and a £20m multi-currency working capital and guarantee facility, again over five years.

Mr Hawkes says the refinancing demonstrated confidence in the group, especially as it had been done between the MBO and the future flotation.

The interim results, announced in October, showed strong organic growth, with a net gain of 175 contracts, compared with 163 previously. Profits before interest and tax were almost 14 per cent ahead at £26.9m in the six months to July 31 on the back of a 9 per cent rise in turnover to £556m.

The group relies on the UK for more than half its business and most of its profits. UK profits grew to £19.9m (£17.2m) on sales of £320m (£291m).

Almost one-third of new contracts in the UK, where margins improved from 5.9 to 6.2 per cent, were in the public sector – an area the group has targeted for future growth both in the UK and overseas.

In the rest of Europe profits edged ahead to £5.5m (£5.2m) on sales of £152m (£141m), held back by the recession in France. European margins eased to 3.6 per cent (3.7 per cent). Profits from the rest of the world, including the US, were £1.5m (£1.3m) on sales of £83.3m (£77.2m).

The group considers there are still considerable opportunities in the core businesses. It wants to exploit the critical mass more, growing on the existing cost base, improving information technology and taking further advantage of its purchasing power. Then, when the time is ripe, it will float.

David Blackwell

LARGER MANAGEMENT BUY-INS OVER £10m

UNDER 25m	£m
1985	
Cullen's Stores	10
1986	
Acal	10
1987	
Life Sciences International	11
Independent Insurance	15
1988	
Autoclenz	13
Burn Stewart	13
Clairmont	14
European Brands	21
1989	
Abacus Health Care	11
Maison Caurette	11
Range Valley	11
Haigh Castle	12
Ratcliffs	13
Country Casuals	14
Valor Stoves	14
British Air Ferries	15
Hill Leigh (Joinery)	15
Gemala	16
Britannia Data Mgt	18
Servicetec	20
Thames International	22
Wellington	22
Hamleys	24
1990	
Anglian Fast Foods	10
Fairmead	10
Wilcox	10
East Lancashire Paper Mill	11
Juliana's Leisure Group	11
Cannons Sports Clubs	14
Hermes	14
Canonbury	15
Lydiashourne	15
Betta Stores	16
Wimpy Restaurants	20
1991	
Ambion Homes	10
Boythorpe	11
Teltscher Brothers	11
National Express II	12
Wallace International	12
BPW Group	15
Sitex Security Products	15
Eagle Taverns	17
BrightReasons	18
1992	
Audio & Vision Furniture	10
CCA Stationery	14
Chamberlain Phipps	14
Harrison Industries	14
Discovery Inns	23e
RSA Advertising	23
1993	
Fleetfoot Racing	14
Charles Letts	16
Hancock Group	17
North East Stag	19
Benjamin Priest	20e
Maiden Outdoor Advertising	20
Quadramatic	24
1994	
Avon Marine	10
Hobby Products	10e
New World Domestic Appliances	11
Victor Products	12
Xtra-Vision	12
Don Millers Hot Bread	13
WRM Logistics	14
House of Hanover	15e
Vector Industries	15
Network SI Group	17
BSK Aluminium	19
Paramount Hotels	19
Whichford International	20

25m - 50m	£m
1986	
Gillow	45
1987	
Raleigh	42
1988	
Lilley	27
Needwood	38
1989	
Beacon	29
Court Cavendish	35
1990	
Ravenhead	27
United News Shops II	33
Walter Alexander	42
David Brown	46
1991	
Lyric Hotels	26
Century Inns	34
Port of Bristol	42
1992	
Centric Pub	28
Mar Taverns	30e
Sycamore Taverns	35e
Inspec Group	45
1993	
Mercury Taverns	25
Hydran	27e
Ultra Electronics	48
1994	
Quexco	25e
Charringtons Fuels	42
50m - 100m	
1987	
United Precision Ind	76
1988	
Financial Ins	55
Lewis's	74
1989	
Crockfords	53
Square Grip	69
James Neill	79
1991	
Enterprise Inns	56
Ushers of Trowbridge	75
Pavilion Services	95
1992	
Unicorn Abrasives	58
Teesside Holdings	63
1993	
Multipart	54
Colas	79
1994	
Croydon Land Estate	61
Principal Hotels	69
Calder Group	85
OVER 100m	**£m**
1989	
Gateway	2,375
1990	
Jarvis Hotels	215
1993	
BP Consumer Product Division	273
1994	
Magic Pub Company	160

Larger management buy-outs are taken as those with total funding of over £10m (subject to allowance for inflation pre 1986). Incorporates MBIs and BIMBOs, e = estimated value of total funding. KPMG Corporate Finance has compiled the information from public sources and from participants in the UK MBO market, but has not verified it independently.

Source: KPMG Corporate Finance, October 1994

The Midlands: **Paul Cheeseright** looks at the activity in this region

Funding outstrips demand

Funding for management buy-ins and buy-outs in the UK midlands has outstripped the demand, in spite of the upturn in corporate activity as economic confidence seeped back into the regions.

This is not surprising. There was an upsurge of activity in the first half of the year but an easing off in the number of deals during the third quarter.

Nottingham University's Centre for Management Buy-out Research, funded by Barclays Development Capital and accountants Touche Ross, established that, during the buoyant first half, the main activity on the market shifted from London and south-east England to the Midlands. In the West Midlands, activity was 13.8 per cent higher than in 1993, while in the East Midlands the rise was 9 per cent.

This greater concentration of activity in the regions has been picked up by NatWest Ventures, the venture capital arm of National Westminster Bank, which claims to be second after 3i among venture capitalists in the scope of its regional office network.

Of the £74m it has invested in 29 management buy-outs and buy-ins this year, 18 deals with investment of £41m have been completed by its regional office network.

Certainly, venture capitalists are more active in the sector as corporate activity gathers pace. "We invested as much in the first six months of this year as in the whole of 1993," reported Chris Rowlands, regional director of 3i in Birmingham. Nottingham University calculated that venture capitalists were involved in financing 47.9 per cent of all management buy-outs during the first half, compared to 35.7 per cent in 1993.

Accountants Price Waterhouse tracked in the East Midlands 11 management buy-outs and buy-ins during the first quarter of this year, seven in the second quarter but only five in the third quarter.

In the West Midlands, Price Waterhouse said there were 13 buy-outs and buy-ins during the first quarter, valued at £24.7m, 21 worth £83.9m in the second quarter but only 10, valued at £139.9m, during the third quarter. The abnormally high value of the transactions during the third quarter came because of the £94m buy-out of Dollond & Aitchison, the optical group, from Gallaher.

The explanation for the third quarter decline is not clear. Certainly it was part of a more general fall in the level of corporate management and acquisitions activity. But, said Price Waterhouse, "the fundamentals for increased activity in the region remain in place. We consider it likely that the fall in completed deals during the last quarter is short term and, cumulatively, the volume of transactions will remain ahead of last year."

The money is ready to finance the transactions. "There is no shortage of capital," said Mr Rowlands. "The demand by companies for new funds is lagging behind the banks' willingness to lend," said John Gregory, director in Birmingham of Singer & Friedlander, merchant bankers, and chairman of the West Midlands Bankers' Association.

The association surveys showed, Mr Gregory said, that "the provision of derivatives and other Treasury products is increasing, alongside project and trade finance as well as mezzanine debt and management buy-out leveraged lending, often involving equity in the form of development capital. However, many banks are still cautious about sectors related to the leisure industry and hotels, or high-tech industries and speculative property transactions."

Where management buy-outs and buy-ins are taking place, there has been a growing emphasis on deals involving medium-sized companies. Nottingham University's research centre reported that deals ranging from £5m to £25m accounted for 20.7 per cent of the total value of buy-outs during the first half.

"Traditionally, deals in the regions have generally been of smaller size than those done out of the London office. This has not been the case recently," according to NatWest Ventures, which said that, of the 18 regional deals it has transacted this year, eight involved more than £10m and three more than £20m.

This may reflect, of course, the greater importance which the financial institutions are giving to the regional market. "Over the last 18-24 months, there has been a significant change in the way the mid-size corporate deals - for companies with turnover between £15m and £50m – are being done. Predominantly they are being handled by regional professionals. What are organisations going to do if they are based only in London?" asked Mr Rowlands.

Recent deals have shown the growing reliance on regionally-based advice mixed with capital and loan funding from the branches of the London financial institutions.

In November, the managers of Rubicon Packaging at Mountsorrel near Loughborough, a company with annual turnover of £11m, used KPMG Corporate Finance in Leicester to negotiate and structure a buy-out which drew in equity finance from Barclays Development Capital, loan finance from the Bank of Scotland, Leicester, and lease finance from NWS Bank.

In October, Price Waterhouse, Nottingham, completed a buy-out deal for the managers of Intermotor, the Nottingham automotive electrical component manufacturer, which involved £15m in total funding. Equity came from a syndicate led by Gresham Trust and comprising Candover 1991 Fund and Threadneedle Investment Managers, which is part of Eagle Star, the insurance group.

But the most famous buy-out and the deal about which Midlands financial groups crowed loudest, not least because of the sentimental hold the company has on Birmingham, was the £40m buy-out from the receivers in April 1993 of Leyland Daf Vans.

For that Coopers & Lybrand, Birmingham, structured a package which brought in equity capital from 3i's regional office, loan funding from Royal Bank of Scotland, Birmingham, and United Dominions Trust, a land purchase which had the effect of providing new working capital by Birmingham Heartlands Development Corporation and regional selective assistance from the local office of the Department of Trade and Industry.

LISTED AND UNLISTED MBOs OVER £10m

	Number			Value (£m)		
	Total	Listed	%	Total	Listed	%
1981-84	25	1	4	857	310	36
1985	23	2	9	869	70	8
1986	27	2	7	939	35	4
1987	33	4	12	2,753	486	18
1988	55	6	11	4,508	940	21
1989	72	12	17	5,885	3,802	65
1990	60	4	7	2,053	167	8
1991	45	1	2	1,922	17	1
1992	54	1	2	2,304	13	1
1993	51	0	0	2,011	0	0
1994 (to date)	59	0	0	1,952	0	0
Total	504	33	7	26,053	5,839	22

Source: KPMG Corporate Finance, October 1, 1994

USE OF MEZZANINE FINANCE ON UK MBOs OVER £10M

	MBO's USING MEZZANINE			TOTAL MBOs				
	Number	Amount of Mezzanine £m	Total value of deals	Number	Total value of deals £m	% of MBOs using mezzanine	% of deal covered by mezzanine	Average size of mezzanine layer £m
1981-84	0	0	0	25	857	0	0	0
1985	5	123	429	23	869	22	29	25
1986	7	96	380	27	939	26	25	14
1987	13	207	1,511	33	2,753	39	14	16
1988	26	280	1,872	55	4,508	47	15	11
1989	38	864	4,849	72	5,885	53	18	23
1990	34	216	1,158	60	2,053	57	19	6
1991	17	140	905	45	1,922	38	15	8
1992	12	96	734	54	2,304	22	13	8
1993	14	120	915	51	2,011	27	13	9
1994 (to date)	14	71	628	59	1,952	20	11	6
TOTAL	178	2,213	13,381	594	26,053	35	17	12

Source: KPMG Corporate Finance, October 1, 1994

British Rail: nearly 100 businesses will be offered for sale, says **Charles Batchelor**

Franchises will limit profits

The privatisation of British Rail represents a challenge for the management buy-out specialists among the financial community and also for BR's managers.

Traditionally, venture and development capitalists have put equity into a new business in the hope of making a sizeable capital gain when they sell out after a few years.

But the franchising of BR's 25 train operating companies will not require large injections of equity because most of their assets will be rented or leased. Managers will be "bidding for a series of inter-related contractual rights and obligations rather than hard assets", comments Richard Price, a partner in the law firm McKenna & Co.

The limited franchise period – probably between seven and 15 years – will mean that managers and their backers will not be able to profit from the goodwill they have built up in the business by selling their shares or floating the company on the stock exchange.

Unless management is successful in bidding for an extension of its franchise, another owner will take over the business. In reality, the incumbent management team will be well placed to win a second franchise period.

Despite this unpromising climate for buy-outs, the government is setting its hopes on managers winning a substantial share of the franchises on offer. Sceptics say this is because the rail franchises are unlikely to attract many outside bidders although conversations with BR's managers reveal an enthusiasm on the part of many to bid.

Management and employee buy-outs have figured prominently in previous privatisations of publicly-owned transport undertakings such as the trust ports, the bus companies and the National Freight Corporation. But the need to continue subsidising large parts of the railway network even after it moves into the private sector has forced the government to adopt a different approach with BR.

It is breaking the company up into nearly 100 separate businesses most of which will be sold to trade buyers or management buy-out teams. Prominent among these businesses are the train operating companies ranging in size from the Cardiff Valley lines with fare revenues of £7m to the west coast main line with revenues of £239m. A management bid has also been made for Freightliner, the container arm of BR.

> Proposals which include employees as well as managers will be given preference

Other businesses to be sold include three newly-created rolling stock leasing companies; the Red Star parcels service; and track maintenance and renewal companies with annual contracts worth more than £1bn. Railtrack, the new owner of BR's track, stations and signalling, will be floated on the stock exchange.

The structure chosen for the railway is for Railtrack to levy access charges on the passenger and freight train operators for the use of the lines. The level of charges will depend on the number of trains run, the types of train – freight wagons which inflict heavy punishment on the track or lighter commuter trains, and whether the train operator wants "slots" at peak times.

Railtrack's charges have been set to give it an acceptable return on capital and to allow it to finance investments. The Treasury has agreed to match these charges by a continuing subsidy to the train operators. The point of this arrangement is that it makes apparent the cost of keeping open individual lines and running specific services. Once the biggest loss-makers have been identified then, in theory, a rational decision can be taken on whether they should be kept open.

The result of this arrangement is that the train operators own very few assets. Their track and signalling is rented from Railtrack while their locomotives and carriages are leased from one of the three rolling stock companies. On the one hand this helps management teams because their capital requirements are small. On the other it makes life difficult for the financiers who normally back buy-outs because there is little requirement for their funds.

"It is a mixed blessing for the venture capitalists," comments Chris Beresford, head of buy-outs at accountants KPMG Peat Marwick. "They want to lay down a lot of money to achieve their internal rates of return of 50 per cent but this arrangement does not allow them to get their funds invested."

Traditional loan finance also has a problem with this way of working because there are practically no assets on which to secure a loan. And, if a franchisee defaults, his creditors will have very little in the way of assets to call upon. With few assets available financial backers will be doubly vigilant to ensure that they pick a competent management team.

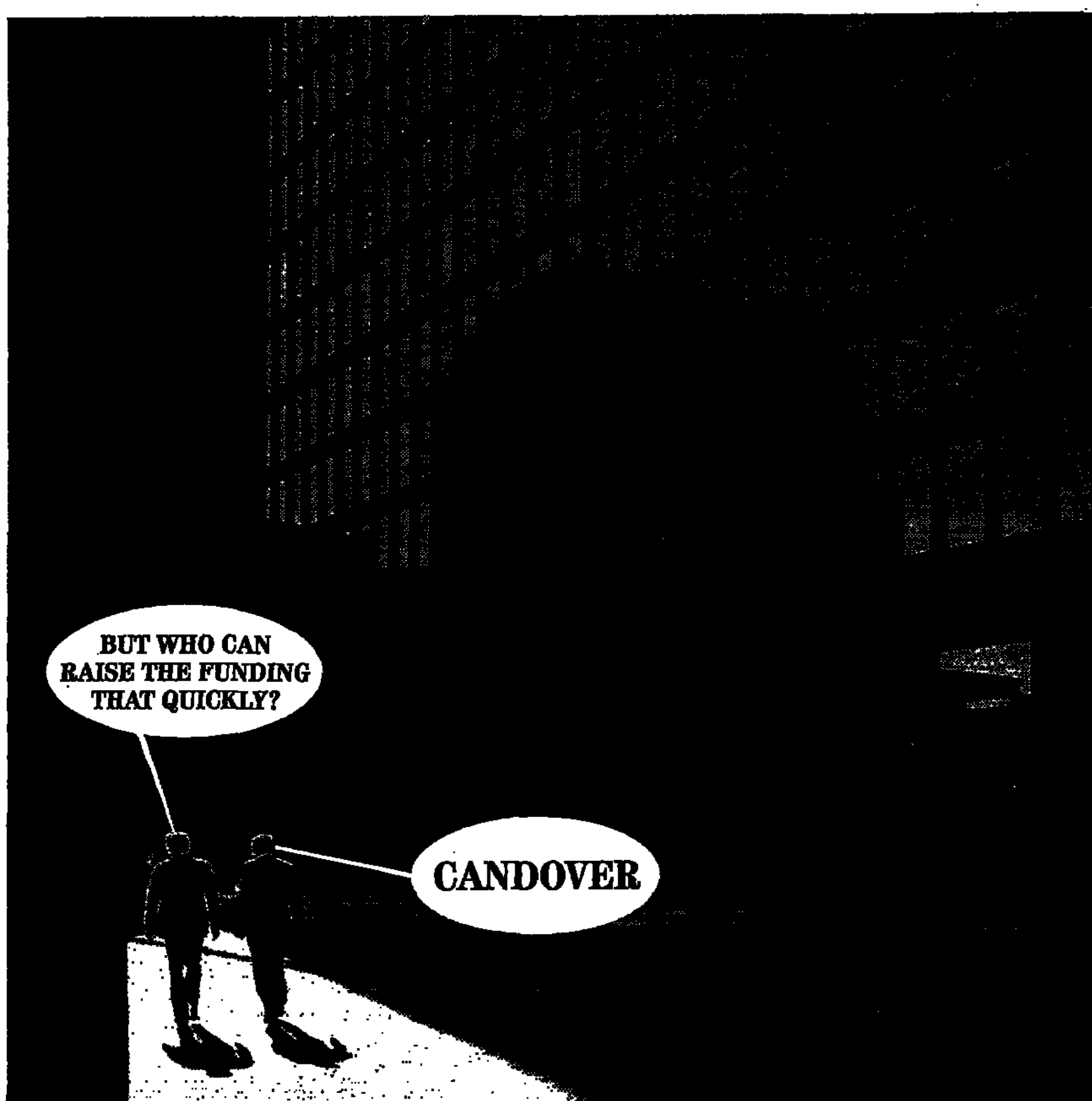
Although they will not need to finance much by way of assets, managers will need working capital and will probably also have to provide performance bonds. These would be called in by the franchising director, responsible for finding buyers for the train operating franchises, if the company defaulted.

Managers may have to make their loan proposals on the basis of cash flow forecasts although the tight regulation of the railway industry which will continue after privatisation may make some lenders nervous. Train operators will not be able to shut down unprofitable services to stem losses because their contracts with the franchising director will require them to maintain a certain level of service.

One advantage enjoyed by managers bidding for parts of BR is a government commitment to meet part of the costs of making a bid, though the successful team would have to repay the advance. Managers can recoup 85 per cent of the first £10,000 and 75 per cent of the rest up to a total of £100,000. Unlike some other privatisations, however, management bids will not be allowed a 5 per cent "discount" against other bidders.

An important concern of the government is that employees and not just managers should be involved in bidding and proposals which include them will be given preference.

The favoured position enjoyed by management teams and the keenness shown by many of them suggests that most of the early franchise sales will be by way of buy-outs, says Mr Beresford. But the government wants to achieve a broad mix of ownership and will not allow buy-outs to dominate the entire privatisation.



British Coal: Michael Smith discusses privatisation plans

Entrepreneurial spirit abounds

British Coal has long proclaimed that there is plenty of entrepreneurial spirit among its employees, even if it has been in the public sector for 47 years.

Proof has arrived over the past year through the emergence of five management buy-out teams bidding to take over some of the mines which are being, or have been, privatised this year.

Two are already up and running and producing coal from pits closed by British Coal in the past two years. They are both single-pit companies, one operating out of Betws in south Wales, the other from Hatfield in Yorkshire.

The other three MBOs were all playing for higher stakes, bidding for one or more of the five regions to be sold to the private sector later this year.

It is likely that only one of these three will be successful. Celtic Energy, led by British Coal's opencast director in south Wales, has been selected as the government's preferred bidder for south Wales.

The other two put in credible bids. English Coal, led by Bob Siddall, British Coal opencast director, wanted all three English region. Northern Coal, led by Alan Houghton, central north director, bid for the region encompassing the Yorkshire pits.

That they failed, or are likely to fail, is at least partly because they did not offer enough money. RJB Mining became the government's preferred bidder for all three English regions by putting in a tender for £900m. That beat English Coal's offer by at least £300m.

English Coal and Northern Coal's only chance now is that RJB will fail to raise the money to finance the bid.

Like RJB, Celtic Energy's success was due in part at least to the size of its bid. According to NM Rothschild, which advised the government, each of the preferred bidders offered the most amount of money for the region or combination of regions for which they were chosen.

Celtic's achievement is all the more notable because south Wales was by far the most popular of the five regions on offer, with at least eight companies or consortia putting in tenders.

Rival bidders included Mitsubishi, the Japanese conglomerate, in one consortium, and Wimpey, the construction group, and Powell Duffryn, the engineering company, in another. Ryan Group, an established mining company, was another contender.

But if beating them was impressive, Celtic now faces the more arduous task of making money out of what it has won. Neither it nor the government is saying how much it bid for south Wales but analysts think it was about £95m.

ANALYSIS OF GEARING OF UK MBOs OVER £10m

Period	Total funding £m	Equity £m	Mezzanine £m	Debt £m	Gearing (M+D:E)	Mezzanine (% of total)
4 years to						
Dec-84	857	370	0	487	1.3	0
Dec-88	9,069	2,538	706	5825	2.6	8
6 months to						
Jun-89	1,279	454	158	1117	2.8	9
Dec-89	4,156	603	706	2847	5.9	17
Jun-90	1,273	288	153	832	3.4	12
Dec-90	780	263	63	454	2.0	8
Jun-91	700	324	30	346	1.2	4
Dec-91	1,222	443	110	669	1.8	9
Jun 92	1,045	419	62	564	1.5	6
Dec-92	1,259	584	34	641	1.2	3
Jun-93	920	393	66	461	1.3	7
Dec-93	1,091	457	54	580	1.4	5
1994 (to date)	1,952	837	71	1044	1.3	4
Total	26,053	7,973	2,213	15,867	2.3	9

Source: KPMG Corporate Finance, October 1, 1994

The 1m-tonne-a-year deal it inherits from British Coal to supply National Power until 1998 is tiny when compared with the 29m supplied to National Power and PowerGen from the central England regions.

Yet, the south Wales region has a relatively small contract with the electricity generators.

In addition, the bid would run into severe difficulties if National Power were to close its Aberthaw power station, which takes all 1m tonnes.

Nonetheless south Wales was not the most popular bid target in the the British Coal privatisation for nothing. Aberthaw seems unlikely to close before 1998 and could last much longer than that. In addition, much of of the 2.4m tonnes a year of coal produced from the Welsh mines, all of which are opencast, is high-quality anthracite.

A naturally smokeless product, it can attract premium prices, sometimes more than £100 a tonne, which is more than double the price of coal sold by British Coal and its successors to the electricity market.

In addition, Celtic Energy has, in Mr Riddleston, a leader who is an enthusiast for the anthracite coal, or black diamonds as he calls it, which his company will produce.

The selection of Mr Riddleston and his team was not greeted with universal acclaim. The opencast section of the Transport and General Workers' Union in south Wales passed a motion of no confidence in Celtic shortly after it was selected as preferred bidder.

Mr Riddleston's track record is good. A 46-year-old graduate in chemistry and a qualified accountant, output has almost doubled from British Coal's south Wales opencast sites since he took over the job six years ago.

Celtic's backers include Charterhouse Development Capital. It has been advised by KPMG Marwick.

Betws miners are achieving high productivity levels by using shovels

According to an analysis by Coal UK, the FT newsletter, that makes the bid extremely expensive when compared to deals involving mining assets in other parts of the world.

David Price, Coal UK editor, says the bid equates to £1.79 a tonne of reserves and £47.50 a tonne for saleable coal. Typical values in recent international deals around the world are about 30p a tonne and £20 a tonne for saleable coal.

The two MBO pits already running – Betws and Hatfield – are trying to make money out of pits that in the latter years of British Coal's stewardship were unprofitable.

Betws Anthracite, led by Martin Cook, former deputy manager in British Coal days, is already exceeding its weekly target after taking over in April. The company says it more breaks even by producing 2,340 tonnes a week but has recently been producing 2,500 tonnes.

The 100 employees are achieving high levels of productivity by returning to traditional mining methods using shovels rather than mechanical coal-face shearers. Betws has borrowed more than £2.5m, mostly from Barclays Bank.

Hatfield Coal, which employs 180 men, expects to produce just under 400,000 tonnes a year when in full swing. Nigel Lowry, finance director, said in the year to June next year output should be about 250,000 to 300,000 tonnes.

All of its output will go to the industrial and household markets, whereas previously British Coal sold coal to the electricity generators from the pit. The buy-out is backed by ECI Ventures.

Elsewhere in British Coal, at least two more MBOs are likely to make bids for non-mining businesses which are being sold off in the next few months. An MBO is among four organisations which are on a shortlist of four to bid for Coal Products, the smokeless fuel subsidiary. Centris, the pensions and insurance arm to be sold next year, is also likely to attract an MBO bid.

Case study: GOITRA TOWER ANTHRACITE

How miners chose to go it alone

Miners at the Tower pit in south Wales had long suspected that managers there wanted to launch a buy-out. But when closure came earlier this year no bid materialised.

The response of more than 200 miners was to organise their own bid, an employee buy-out. Last month they were chosen as the government's preferred bidder for the pit in readiness for an expected handover of the assets on Christmas eve.

The miners will have virtually the whole of Wales willing them to succeed. The region was once one of the coal capitals of the UK but Tower was British Coal's last deep mine operating in the region when it closed in April.

Until the buy-out team took an interest there was a danger that deep mining would be lost to the region for ever. Tower pit itself was first sunk in the 1930s.

Assuming the bid is successful it will be quite a coup. The miners will have persuaded both financial backers and government that they are capable of making a success out of a mine for which British Coal said there were not enough markets.

> The miners will have the whole of Wales willing them to succeed

Neither the government nor the buy-out team will discuss the size of the bid but it is thought to be worth considerably more than the £2m that the men have raised by putting in £8,000 each.

Winning the government's backing as preferred bidder for the pit was a considerable achievement. At least one other company put in a tender.

Ministers had always said they wanted workers to have a stake in the future of the industry and were known to want to encourage buy-outs.

However, employee buy-outs are often considered to be riskier ventures than management buy-outs. The government would not do a deal with the buy-out unless there was a strong chance of running the pit successfully.

LEADING MEZZANINE ARRANGERS

1 January 1990 - 30 September 1994

	Number of Deals	Total Mezzanine £m	Average Value of Mezzanine £m
3i	17	59	4
Intermediate Capital	15	198	13
NatWest Ventures	9	50	6
Legal & General/Mithras	7	66	9
First Britannia	4	42	11
Samuel Montagu	4	20	5
Chase Manhatten	3	24	8
Kleinwort Benson	3	19	6
Morgan Grenfell	3	16	5
Phildrew Ventures	3	9	3
Others	27	208	8
None/Not Known/(Duplication)	(6)	(68)	
Total	89	543	7

Qualification: £10 million plus deals, acted in three or more

Source: KPMG Corporate Finance, October 1, 1994

LEADING DEBT ARRANGERS

1 January 1990 - 30 September 1994

	Number	Total Debt £m	Average Value of Debt (£m)
Bank of Scotland	86	1,545	18
NatWest	45	1,281	28
Midland/Samuel Montagu	36	554	15
Barclays/BZW	28	374	13
Royal Bank of Scotland	13	235	18
Morgan Grenfell	8	429	54
Lloyds	6	114	19
N M Rothschild	4	59	15
Bankers Trust	3	262	87
3i	3	17	6
Socit Gnrale	2	320	160
Bank of America	2	114	57
Union Bank of Switzerland	2	113	57
Coutts & Co	2	94	47
Swiss Bank Corporation	2	63	32
Chemical Bank	2	37	19
Continental Bank	2	32	16
Kleinwort Benson	2	29	15
Bank of Ireland	2	19	10
Ulster Investment Bank	2	12	6
TSB	2	10	5
Banque Indosuez	2	8	4
Others	20	801	40
None/Not Known/(Duplication)	(7)	(931)	
Total	269	5,591	21

Qualification: £10 million plus deals, acted in two or more

Source: KPMG Corporate Finance, October 1, 1994

It will look bad for the government if any of the companies chosen to run the industry after privatisation should fail, but more particularly if the company has been founded with the money of its employees.

Failure is not something which Goitra Tower Anthracite, as the buy-out company is called, believes is remotely possible. Tyrone O'Sullivan, secretary of National Union of Mineworkers lodge at Tower when it closed, says Tower made operating profits of £28m in the last three years.

He says the company will aim to produce 430,000 tonnes of coal a year and it has markets for all of it. Some three quarters of the output is expected to go to the domestic market where profit margins are high.

Goitra also believes that costs will be much cheaper than in British Coal even though pay for each of the miners will, according to Mr O'Sullivan, be higher and working methods similar.

"Management levels will be more sensible," he says. "In British Coal days there were about 50 managers," he says. "We will have nothing like that."

But in an employee buy-out, who will do the managing? Are there dangers of a conflict of interest?

Mrs Caroline Price, senior corporate finance manager at Price Waterhouse, which has advised Goitra on the bid, says there is a clearly defined management structure.

"Employees will have two hats. They can vote at the annual general meeting but on a day-to-day basis they will be employees. They understand very well the need for discipline and often point out that in a mine it can be a matter of life and death."

> Costs are expected to be much cheaper than in British Coal days

Goitra has appointed Cliff Jones, ex manager of the Betws pit, also in south Wales, as pit manager.

He will be one of three management directors on the board, along with Tony Shott, mine surveyor. The third will be a finance director who is being appointed from outside the coal industry.

There will also be two workers' directors, including Mr O'Sullivan. The chairman of the board will be Philip Weekes, a former director of the National Coal Board in South Wales. He first came into contact with miners at Tower 35 years ago.

Michael Smith

Financing a bid: **Peter Carty** looks at the cost of professional fees

The fear of a failure is daunting

Fear of the consequences of a failed bid might discourage many managements from trying to buy their company. If the buy-out goes ahead Newco – the new company formed by *a deal - pays all the professional* fees. But what if there is no Newco? In this event, losing homes or life savings to fund the professional fees run up in an abortive bid is unlikely.

Although no two buy-outs are the same, most bids can be examined in a couple of stages: before and after the exclusivity deal in which management *becomes the preferred bidder*. "Exclusivities are still very much the norm," says 3i director Gordon Maclean.

Management's first task is to find a corporate finance adviser, usually a corporate finance boutique, accountants or, rarely, a merchant bank. The adviser is likely to ask the vendor to underwrite manage*ment's initial professional fees* in the event of the bid not progressing.

Vendors often agree to this. A buy-out bid is a useful benchmark against which to assess other bids, since the management has an inside track on what the business is worth.

Otherwise, most or all of the *preliminary advisory work* is likely to be carried out on a contingency basis. Advisers readily admit that they take a gamble when agreeing to act for managements. "For every three serious approaches, only one is backed," estimates Chris Beresford, KPMG Peat Marwick's buy-out head.

Advisers are well aware that while companies can afford substantial fees, managers normally cannot. The exception is where a bid is driven by a wealthy entrepreneur.

Having said this, advisers may retain the option of recovering some fees in the event of an unsuccessful bid. A typical sum is £10,000. "We might want a commitment of that sort," says Mr Beresford.

He rarely invoices management even if a bid fails There are two sets of circumstances in which it does happen: where managements benefit from negotiating a trade sale, perhaps by getting a percentage of the consideration; and where managements pull out without a satisfactory reason.

LEADING ACCOUNTANTS

1 January 1990 - 30 September 1994

	Number of Deals
KPMG Peat Marwick	95
Coopers & Lybrand	85
Price Waterhouse	70
Touche Ross	40
Ernst & Young	38
Arthur Andersen	35
Others	52
None/Not Known/(Duplication)	(146)
TOTAL	269

Qualification: acted in £10 million plus deals

Source: KPMG Corporate Finance, October 1, 1994

Partly because collection after abortive deals is at the adviser's discretion, attitudes vary. Some boutiques and smaller firms of accountants appear to take a harder line, but again the issue is normally only whether they collect a *nominal commitment rather* than whether they bankrupt the management team. Others side-step the collection issue. First Independent Corporate Finance asks for a consideration in advance: "A few hundred or thousand up front," according to managing director John Beattie.

Managements may not use an independent corporate finance adviser at all. They frequently go direct to a venture capitalist or, in the era of the IBO (institutional buy-out), institutions approach them. According to research by Coopers & Lybrand on completed MBOs for the year to September 30, managements were not reported as having received independent financial advice in more than half of the deals surveyed. In such cases all the professional advice management receives is likely to be *arranged through the equity* provider, normally on a contingent basis.

The professional fees meter only starts really running after the exclusivity hurdle is cleared and management becomes the preferred bidder. At this point an outline deal with a completion date is normally agreed. Most of the due diligence and legal work is then carried out. Sometimes it is done in-house by venture capitalists. If not, particularly for larger deals, firms of lawyers and accountants are used.

Marketing consultants are likely to be brought in to report on the business's prospects and other advisers assess the bid's pensions implications. Environmental impact reports are also increasingly required.

If the bid falls after clearing *the exclusivity hurdle*, the management team is still unlikely to be liable for any of these fees. The venture capitalist or vendor is most likely to be billed. "If you walk away you pay, if the vendor walks away then it pays," says 3i's Gordon Maclean. Many of the professionals and institutions involved are accustomed to receiving lower fees for abortive bids. "The management team in my experience are rarely on the hook for anything," he says.

However, in exceptional cases, as well as a small sum to the corporate finance advisers the management team may also have to compensate the solicitors. "As lawyers we ask for a commitment," says Mark Vickers, a partner in city solicitors Alsop Wilkinson. But he stresses that this is not onerous. "You have to be realistic." *He says that most of the time* his firm does not collect from managements on abortive deals. If they do, the sums are typically no more than £3,000 to £4,000 per manager.

Any potential liability for corporate finance or legal fees will be set out in terms of engagement. But many management teams should be able to negotiate away any downside liability, even for initial advisory fees. Key factors to dangle in front of institutions and advisers are the size of the deal and its likelihood of success, and the calibre and commitment of the management.

LEADING SOLICITORS

1 January 1990 - 30 September 1994

	Number of Deals Acting For Equity/Debt Leader	Number of Deals Acting for Manager	Total Number of Deals
Clifford Chance	52	9	61
Ashurst Morris Crisp	32	6	38
3i Legal	36	0	36
Lovell White Durrant	28	5	33
Allen & Overy	25	5	30
Macfarlanes	24	5	29
Alsop Wilkinson	17	10	27
Wilde Sapte	24	2	26
Dickson Minto	17	6	23
S J Berwin	10	11	21
Eversheds	4	14	18
Dibb Lupton Broomhead	9	8	17
Cameron Markby Hewitt	7	5	12
Edge & Ellison	6	6	12
Turner Kenneth Brown	8	4	12
Wragge & Co	5	7	12
Herbert Smith	9	1	10
Osborne Clark	4	6	10
Addleshaw	4	5	9
Hammond Suddards	7	2	9
Nabarro Nathanson	8	1	9
McKenna	3	5	8
Pinsent	3	5	8
Booth & Co	6	1	7
Halliwell Landau	2	5	7
Norton Rose	6	1	7
Maclay Murray Spens	2	4	6
Richards Butler	5	1	6
Simmons & Simmons	4	2	6
Simpson Curtis	1	5	6
Travers Smith Braithwaite	5	1	6
McGrigor Donald	3	2	5
Slaughter & May	1	4	5
Bird Semple	3	1	4
Freshfields	4	0	4
Titmuss Sainer & Webb	0	4	4
Other	52	100	152
None/Not Known/(Duplication)	(167)	10	(157)
TOTAL	269	269	538

Qualification: £10 million plus deals; acted in four or more.

Source: KPMG Corporate Finance, October 1, 1994

Often it is a foregone conclusion. "They offered before I asked," says Bob Littledale. He mounted a buy-out for his company, Oxford-based CSE Aviation Ltd, in 1990. The company went to a trade buyer instead. Mr Littledale incurred no liabilities and subsequently participated in a successful bimbo (a buy-in/buy-out).

"I've failed twice in a buy-out," admits Stewart Swinden, managing director of Energy Facilities Management Ltd, based near Manchester. Both bids foundered through no fault of the management teams and Mr Swinden did not pay any fees. He was then backed by 3i in a successful buy-in bid for his present company in 1989. Mr Swinden advises other managers to request that all fees are on a contingency basis: "Don't be afraid to ask."

So, managements are most unlikely to lose their shirts over a failed bid. Of course, it is different if the bid succeeds but Newco later founders. Then family homes really can be lost.

ESOPs: **David Cohen** on benefits in involving employees

Workers share bonus

"What about the workers?" may not be the first question on the agenda when a team of managers sits down to plot a buy-out but a growing number of MBOs now give employees the chance to become shareholders. Managers who decide not to keep all the equity may be motivated by feelings of guilt as they contemplate the vast gains they hope to make on their own shares. But wider ownership can also bring more tangible benefits.

First, where a management team faces competition from other bidders *the inclusion of* employees may tip the scales in its favour. This is more likely when the target business is being privatised and there may be a political decision favouring a MEBO (E for Employee). Half the privatised London bus companies – and a majority outside the capital – have been bought by MEBOs.

However, it will rarely be possible for the bulk of employees to be shareholders in the MBO. The stringent requirements of the 1986 Financial Services Act and the practical difficulties of co-ordinating a complex transaction on a tight *timescale* favour the employee shareholdings being held through an Employee Share *Ownership Plan (ESOP)*.

An ESOP is a discretionary trust for the benefit of a company's employees. If the decision is taken to allocate, say, 10 per cent of the MEBO company to the employees as a whole, the shares can be taken up at the outset by an ESOP with the ultimate distribution postponed. This should solve the logistical headache with only the trustee of the ESOP – usually a corporate entity controlled by the main MEBO company – needing to be directly involved in the actual

As well as being convenient, an ESOP may make it easier to raise the finance needed for the buy-out. The extent to which a target company's assets can be used as security for loans to fund a buy-out is severely restricted by section 151 of the 1985 Companies Act which makes it illegal for a company to provide financial support for the purchase of its own shares. Whereas MBOs have to try and take advantage of the very restricted section 151 loopholes, *ESOPs have* their own clear-cut exemption.

A bank which has refused to increase the amount it will offer to an MBO may recon*sider if the* MBO becomes an MEBO and the bank can secure the target company's property or its guarantee.

An ESOP should also make it cheaper for the MEBO to service and repay its debt because regular, properly-structured contributions by the target company to the ESOP should be deductible for corporation *tax purposes*.

But this tax break cannot be taken for granted. The Inland Revenue considers each case on its own merits. The only way to guarantee tax relief will be to ensure that the ESOP qualifies as an Employee Share Ownership Trust (ESOT) under the 1989 Finance Act.

Half the privatised London bus companies were bought by teams which included workers

*An ESOT has to satisfy rigor*ous conditions. Democratically elected employee representatives must comprise a majority *of the trustees or – as a result* of a reform introduced by this year's Finance Act – the trust can adopt a "paritarian" structure with employee and management teams agreeing on the selection of the independent professional who would hold the balance of power.

Another perceived drawback of ESOTs is that shares must be distributed either directly, by gift or sale, to all eligible employees, or via an Inland Revenue-approved profit sharing scheme.

Managers who are prepared to tolerate these constraints may be able to take advantage of the fact that a vendor who sells to an ESOT can "roll over" any capital gain on his shares by investing the proceeds in other assets and will pay no capital gains tax until he disposes of those other assets. If the conditions for this relief are met – in particular, the ESOT must own at least 10 per cent of the target company within 12 months of the sale – shareholders who want a rollover should be prepared to accept a lower price for shares.

In spite of these attractions, ESOTs are still scarce. The majority of MEBOs have turned their backs on the extra tax reliefs and opted instead for the greater flexibility of the plain vanilla ESOP.

Nowhere is this flexibility more evident than in relation to the *distribution of shares to* employees. Possibilities range from an offer for sale – a test of employee commitment and a way of raising funds – to free shares which, if held on the employees' behalf by the trustees of a profit sharing scheme for five years, will also be taxfree. Or employees can be granted IR-approved share options to be satisfied by the transfer of shares from the ESOP.

Whatever the tax and financing pluses of slotting an ESOP into the MBO jigsaw, the acid test will be whether the ESOP can achieve a "hearts and minds" objective. Wider employee ownership may defuse trade union objections to a proposed *buy-out* and dampen worker resentment of "get rich quick" managers. This will be a particularly important safety valve if, as is *often* the case, the managers' road to riches is paved with redundancies and other cost-cutting measures.

On a more positive note, the managers and their investors will hope that equity involvement engenders a sense of teamwork and a clear focus on common goals throughout the workplace.

Simon *Smith of Capital* Strategies, specialist advisers on MEBOs, says "the benefits of employee ownership, bringing greater staff participation, can enhance the value of everybody's shares. An index of large US companies with significant employee ownership has outperformed the Standard and Poors 500 index by 22.7 per cent over the last 11 quarters".

Similar trends in the UK should more than outweigh the cost of putting the 'E' into MEBO.

David Cohen is a partner in the City law firm of Paisner & Co and the Chairman of the Share Scheme Lawyers Group.

Case study: NUTRECO

Geographical complexity

The $425m sale earlier this year of British Petroleum's animal and fish feeds divisions was the largest management buy-out since the purchase of Gardner Merchant, the contract catering company, from Forte in 1992.

But it was also one of the most complex buy-outs in recent years because of the wide geographical spread of the business and the need to transform the 150 disparate legal entities involved into a coherent corporate structure.

The Nutreco buy-out involved 20 operating companies employing 5,700 people at 250 main sites in 19 different legal jurisdictions. Combined annual turnover of the businesses is more than $2bn.

The top tier of 70-80 senior managers own 11.5 per of Nutreco's shares, although there are plans to encourage wider share ownership among employees.

The buy-out was the final piece of a $1.5bn disposal programme begun by BP in 1992, when the company decided to focus on its core activity as an *integrated oil and natural gas* company.

The companies slated for sale were grouped under the BP Nutrition Division, although their products ranged from shampoo to fish feeds.

They included such household names as Purina Mills, one of the largest animal feed operators in the US, as well as *small specialist companies* operating in worldwide national or regional markets.

Most of the businesses in the Nutreco buy-out are involved in fish and animal feeds, although there are also abattoirs as well as poultry breeding and pork processing operations. In some ways they were a strange mishmash of *companies," said one adviser* to the deal. "They represented the rump of BP Nutrition," he added.

But Simon Rowlands of CINven, which jointly led the buy-out with Baring Capital Investors, says Nutreco's broad portfolio of products and geographical spread were part of its appeal.

So, too, was its presence in fish foods, a fast growing sector worldwide. Although Nutreco is often described as being basically an animal feeds *business, Mr Rowlands* says it is "rapidly becoming a fish feeds business with animal feeds attached".

But the benefits of a broad geographic spread also created problems in structuring the deal. "There was the whole question of control and management cultures," says Mr Rowlands. "We had to take a *view on whether to go forth as* a single international company or as a series of national barons."

The decision was to form a more coherent company under Richard van Wijnbergen, chief executive, with headquarters in Boxmeer in the Netherlands.

But the task of transforming the business at the same time as structuring the deal proved tricky. One problem for the 20 operating companies was the shock of *leaving the BP fold. "Severing* the cord to mother BP proved to be a painful process for some of the companies," says one adviser.

The lack of detailed information on the businesses became evident at a relatively early stage, says Mr Rowlands. "BP's information availability was not as extensive as one would *have liked," he says.*

An extensive due diligence exercise put considerable pressure on the *local* managers of the companies. But the information it uncovered led to a change in the structure of the deal as well as in its price. It also caused some delays.

Chris Berisford, a partner in the London corporate finance *department of accountants* KPMG, said the unusual nature of the disparate markets served by the various businesses complicated the exercise.

"Some businesses were purely international, like fish feeds, while others, such as slaughterhouses, had a very regional focus," he said.

Many of the companies also had complex contracts with their customers that were related to the cyclical commodity markets in which they operated, but which were difficult to understand.

Such complexity meant that *"the numbers kept changing* all the time," according to Mr Berisford.

The structure of the deal also caused some anxiety among the national companies, in large part because the buyers wanted to put the debt into the various operating divisions.

Mr Rowlands at CINven said executives at many continental European operations found it difficult to understand why their companies had to assume a portion of Nutreco's debt.

"The Spanish operating company would ask 'why are people in London and Holland imposing this on us?'"

The geographic spread of the businesses meant that the closing of the deal had to be carefully planned. Alastair Dickson, of London lawyers Dickson Minto, said the deal structure called for tiers of acquisitions to be executed *within a short period over time* zones that stretched from Australia to South America.

The *deal* closed on September 30 after two days of transfers, notarisations and banking transactions.

Mr Rowlands says it was the sheer complexity of the Nutreco deal that resulted in another unusual feature of the buy-out; the fact the two financial institutions led the deal.

"It was the first time that two financial institutions had worked so closely together," he says. But it is unlikely to be the last. He believes more joint deals will emerge in the future as buy-outs become bigger and more complex.

Robert Corzine

What do they mean by that?

The management buy-out specialists speak a jargon that is peculiar to its industry but impenetrable to the outsider. **Richard Gourlay** offers a helping hand to management teams seeking membership to the club

Bimbo: a deal involving existing managers with outsiders who have brought the deal to venture capitalists or who are brought in by the financiers. It stands for buy-in/management buy-out. An option increasingly favoured by venture backers.

Bought deal: When a deal-maker provides all the finance for a buy-out deal, and then sells on or syndicates part of the funding to other investors later. Done by the larger providers of finance

when speed is important for the deal to succeed.

Bridge financing: short-term funding provided when a company is about to raise a new round of equity, or is about to go public.

Caps, collars and cylinders: clauses in buy-out deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. They act as a safeguard against borrowing costs rising to the point where the company's cash flow is stretched too far.

Deal flow: the rate at which investment propositions come to the deal-maker or financier. It is difficult to find any financiers who have anything but a "very good deal flow at the moment". The real test is the number of deals that deserve finance.

Development capital: finance supplied to established companies which are profitable or nearly profitable and require capital to develop further, probably to a stage where they will be able to provide a flotation or other exit for their investors.

Due diligence: detailed analysis and appraisal of the background of the entrepreneur and his business plan, often carried out in conjunction with accounting firms.

Earn out: either a formula for relating the final purchase price of a company to actual future earnings, or a means of encouraging management to perform by payment on the basis of future performance.

Employee buy-out: a deal involving a large proportion of employees in an organisation as well as its management.

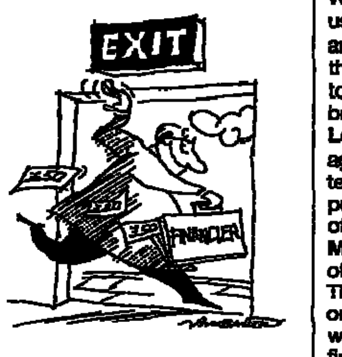
Employee share ownership plan (Esop): a trust which is established to acquire shares in a company for subsequent allocation to employees over a number of years.

Exit: the point at which the financier sells his holding in the buy-out company, either through a trade sale to a larger company, by the management buying out the other investors to assume complete control, or by a flotation.

Gearing, or leverage: the ratio of debt to equity in a company's capital structure. Intermediate forms of capital, such as redeemable preference shares and convertible loans, are generally regarded as debt for gearing purposes, though they very quickly look like equity if the business goes wrong.

Hands on/hands off: the degree to which an investor in a buy-out becomes involved in its management. A hands-on investor would normally nominate a non-executive director to the board. Hands-off investors would have little involvement.

Internal rate of return (IRR): different investors calculate this in different ways, but the term generally refers to annual compound rate of return to the investor over a given period. Returns normally include dividend distributions and profits from either disposals or a fair valuation of the buy-out



company. Used as targets for investors, actual rates of return usually fall wildly short or greatly exceed initial projections.

Junior debt: unsecured loans which rank after secured or senior debt for repayment in the event of a default (see senior debt).

Junk bonds: high yielding, unsecured debt used in US buy-outs. In the form of a bond certificate, junk can be bought and sold more easily than the mezzanine loans used to finance UK buy-outs.

Lead investor: venture capitalist (VC) that won the mandate for the deal and leads any large syndication. The lead investor does not necessarily take the largest stake.

Lemons and plums: Bad deals and good. A retrospective assessment – no deal ever started as anything but a plum.

Leveraged buy-out: similar to a management buy-out, though usually applied to US deals where the transaction will have been initiated by a financial group rather than by management. Increasingly deals are initiated in the UK by financiers.

Living dead: a VC-backed business that is neither dead on its feet nor going anywhere very fast. The backers are usually locked in with no exit and little option but to watch the actual IRRs sink. Tend not to make it into VC's corporate brochures.

Lock-out agreement: an agreement to give the buy-out team time to negotiate the purchase of their company free of pressure from other bidders.

Management buy-in: an offshoot of the MBO industry. The purchase of a business by one or more outside managers with the help of a group of financial backers. Pure buy-ins are often riskier than pure buy-outs, because they involve outside management, but buy-ins, management buy-outs (Bimbos), are increasingly popular.

Management buy-out: the purchase of a business by its management with the help of financial backers. The managers put up a relatively small amount of the finance but gain a disproportionately large share of the equity.

Mezzanine finance: loans, usually unsecured, which rank after secured or senior debt but before equity in the event of the company failing. To compensate for the greater risk, they typically carry interest one to three percentage points above secured loans, and an equity "kicker" to give the lender a stake in the equity.

Preferred ordinary shares: refers to the ordinary shares taken up by outside investors in a buy-out. They rank ahead of the plain ordinary shares owned by management in terms of dividends and the pay-out in the event of a winding-up.

Ratchet: an incentive arrangement whereby managers get a bigger share of the equity if the venture performs well. These can work the other way, with managers' shares of the equity disappearing towards the venture backers.

Second-round financing: sometimes needed to help buy-outs which have run short of funds. Usually leave the company in a weak negotiating position.

Senior debt: secured debt

which ranks first in terms of repayments in the event of a default (see also junior debt).

Syndicated investment: an investment which is too large and risky to be handled by one investor and which needs to be shared among several partners.

Vendor finance: finance provided by the vendor in the form of either a deferred payment or a retained minority stake in the bought-out company.

Regional fund: MURRAY JOHNSTONE

Scottish house expands

As the management buy-out of Ferranti Technologies entered its final stages last week, it marked yet another step in the emergence of the Scottish finance house Murray Johnstone in English venture capital markets.

The question is why Murray Johnstone was once again leading a significant, high profile deal – this time with £1m of equity – to secure more than 300 jobs at the old Cairo Mill in Oldham. The company makes electronic equipment and highly specialised gyroscopes for the defence industry.

The risk is small compared with the £11m of equity capital put into the management and employee buy-out of Greater Manchester Buses North earlier this year, but the Ferranti deal is typical of what the fund manager is up to.

Scotland, however, has little to do with it. Success is emanating from Manchester, where the Glasgow-based Murray Johnstone decided in 1988 to open an office. It was bidding to manage Ventures North West, a £20m regional fund backed by the £2.5bn of superannuation monies of the 10 Greater Manchester local authorities, the police and similar regionwide bodies.

Jonathan Diggines, then a 35-year-old Manchester solicitor who had impressed when acting for corporate clients, was head-hunted to take charge. Murray Johnstone won the beauty parade to run Ventures North West but it soon became clear that the arrangement was likely to offer something more than an average-sized regional fund could offer.

It piggy-backed into northern England access to £200m of funds managed by Murray Johnstone generally. This has made a decisive impact on the way Mr Diggines and two other Manchester-based investment managers have been able to operate.

No regional fund invests more than 10 per cent of its pot in any one venture, and most would regard 5 per cent as the prudent upper limit. This limits the scope for driving deals, confining many regional players to playing second fiddle in syndicates.

Mr Diggines, however, has been able to take the lead with a freedom denied to many of his counterparts. The result is that Ventures North West's £20m fund is almost fully invested in 23 companies, but Murray Johnstone has been able to do another £130m of deals out of Manchester, involving 25 companies in all.

For example, the buses buy-out received about £1m of equity backing from Ventures North West, but nearly £10m from Murray Johnstone. Local knowledge – the prerequisite of a good local deal – was available in abundance, so no great selling job had to be done to pull in outside firepower.

Mr Diggines is now in charge of Murray Johnstone's London office as well as Manchester, with a remit to repeat in the south-east and south what he and his colleagues have done in the north. He sits on the Murray Johnstone board and on the investment committee which makes its decisions by teleconference every Wednesday. In Manchester, his investment managers are accountants, but they will be joined by a merchant banker shortly.

He thinks small teams and decisiveness have been important in Murray Johnstone's emergence. It is policy to say "no" quickly so as to make as much resource available as possible for speeding "yes" decisions. "But if you say yes, you have got to mean it, and not be half-hearted," he says.

Murray Johnstone believes it is now second in UK regional markets to 3i, which has a 50 per cent share. Unlike 3i, it always adopts a hands-on approach, taking a seat on the board of investee companies.

Mr Diggines also believes Manchester's financial and professional network has been important, enabling many deals to be brokered and syndicated in the northern capital's "square half-mile" – the city centre area peopled by lawyers, fund managers, accountants and the like.

The key, however, is access to substantial funds and to the ability to commit them. Something more than a representative office is required. In its Manchester set-up, Murray Johnstone appears to have discovered an ideal approach. Some London-based funds are already trying to copy it in the regions. If Murray Johnstone can repeat its Manchester success in the south and south-east, the gauntlet will really be down.

Ian Hamilton Fazey

Investment trust: **David Wighton** looks at Legal & General's latest idea

Good time to hunt for bargains

With venture capitalists sitting on more funds for buy-outs than there are buy-outs to fund, managers are coming up with some ingenious ideas to increase their share of the action.

Legal & General Ventures' latest notion is an investment trust which will invest primarily in companies recently floated by management buy-out and buy-in teams.

Charles Peal, managing director, admits that one of the main aims behind the trust is to support the company's own buy-out funds.

He hopes that buy-outs will be keener to bring Legal & General Ventures in on the original deal if they think that the new trust will take shares in the eventual flotation – the very time when other venture capitalists want to exit.

> **Most managements retain the bulk of their shareholdings after flotation giving them every incentive to make the company perform**

"In this respect the concept is similar to Mithras Investment Trust, the first investment trust in the UK to specialise in mezzanine loans which we formed earlier this year."

The new trust will reserve up to 25 per cent of its assets for unquoted investment in buy-outs and buy-ins. This should ensure that it can take a full allocation of new issues which other fund managers may find are oversubscribed. It will also give it the benefit of knowing the buy-out for some time before making its decision on flotation. And with luck the unquoted portfolio should also deliver a useful boost to the trust's overall performance.

However, this will depend mainly on the progress of the flotations. And recent experience of buy-out new issues is not encouraging.

The past few months have brought several disappointments and spectacular flops. Shares in Aerostructures Hamble and McDonnell Information Systems have tumbled after profit warnings issued very shortly after their flotations.

They seemed to confirm the widely-held view that buy-out/buy-ins should be treated with even more caution than other flotations. According to this argument venture capitalists are only interested in getting as high a price as possible on flotation and managements are only too happy to go along with them if the size of their own stake is dependent on the price. Critics also point to the danger that highly geared buy-out companies have been starved of capital to invest in the business, reducing future growth prospects.

However, while these arguments might seem plausible, there is little evidence to suggest that buy-outs underperform after flotation. Indeed, the studies that have been done tend to show the opposite.

Last year stockbrokers James Capel constructed an index of all buy-outs with a market capitalisation of more than £40m starting at the beginning of 1986. The companies were removed from the index three years after flotation on the grounds that, after a time, their characteristics become more typical of a quoted company than of a buy-out.

The index, which included 32 companies, outperformed the the FT-SE All-Share index almost fourfold in the eight years to September 1993. Capel has recently updated the research and the results for the past year are not quite so impressive since many of the companies that came to market in early 1994 were overpriced. But buy-out flotations overall have still outperformed their stock market sectors.

Work by SG Warburg Securities has reached similar conclusions and older studies in the US also support the case. Mr Peal believes the results are not surprising. "The success of these ex-buy-outs and ex-buy-ins is attributed to the motivation of the management, whose personal fortunes were made as founding shareholders in the original buy-out or buy-in." He points out that most managements retain the bulk of their shareholdings after flotation giving them every incentive to make the company perform. He also believes that the disciplines imposed by venture capitalists are healthy.

"Under venture capital control managements are obsessed with profits and cash flow rather than turnover and market share."

Former buy-outs tend to be highly focused and lean companies with good managements. Weak managers usually do not survive the weight of the buy-out structure and the scrutiny of the venture capital backers.

Many buy-outs have been extremely successful after flotation such as Hays, Compass, Trinity and Fairey. Moreover several that blotted their copybooks shortly after flotation, like Holliday Chemicals and Kenwood, have since recovered fully.

The market is now so nervous about buy-out flotations that go wrong that Mr Peal believes share prices over-react on the merest hint of bad news. Regarding these as buying opportunities the trust has invested in a number of the recent casualties.

Formed in 1986 as Group Development Capital Trust, it had decided to liquidate itself in the middle of this year when Legal & General, the largest shareholder with 26 per cent, proposed taking over as manager and changing the investment policy. It has just raised £18m from a share issue, taking its total value to more than £30m, with Legal & General increasing its stake to 49 per cent.

The new trust aims to pick the top 25 per cent of all the former buy-outs and buy-ins that have come to the market since the beginning of 1990. There have been more than 60 above its minimum flotation size of £25m with a total value of £5bn.

On top of a core portfolio of around 15 stocks the trust will aim to invest in about one in four of all new former buy-out flotations.

The objective of the new investment policy is to generate a total return in excess of the FT-SE All-Share index. If it can achieve this after three years or more then its directors and managers qualify for a 5 per cent option package. The options are exercisable between years three and seven only if the All-Share hurdle has been exceeded by 1.25 per cent a year compound.

The trust has attracted a heavyweight chairman in the form of Lord Sheppard, chairman and chief executive of Grand Metropolitan, who has considerable experience of buy-outs from all angles.

The trust has timed its rebirth pretty well. Not only are several of the recent buy-out flops trading at very depressed levels the disasters have made investors extremely cautious about new buy-out flotations driving prices down. Mr Peal is not the only one who believes that now is a good time to hunt for bargains.

US: **Richard Waters** on the wave of new investment

Awash with cash again

The US buy-out industry is awash with cash again. Back in the late 1980s, the $8bn-10bn a year that flowed into private buy-out partnerships provided the springboard for some of the decade's biggest acquisitions: by using debt to gear up their equity tenfold in some cases, the LBO funds became a power in the land.

Today, leveraged acquisitions may not be as leveraged as they were (a recipe of three or four parts debt to one part equity is more the norm). But the equity base of the buy-out industry is getting back to the levels of the 1980s.

After $7.2bn in 1993, acquisition funds raised $5.7bn in the first half of this year, according to Private Equity Analyst, a newsletter based in Wellesley, Mass. The tide of cash seems well on its way to matching record levels.

This wave of new investment in the buy-out industry is being driven by supply, not demand. While the opportunities for large-scale deals are still relatively few and far between, there is no shortage of institutions looking to back them.

In the main, the suppliers of cash to private equity partnerships have been US pension funds, lured by the chance to make investment returns well in excess of those available in public markets.

Over the past two decades, leveraged buy-out funds are estimated on average to have made compound annual returns for their investors of some 25 per cent (after management fees.)

Those fund sponsors who came through the upheavals of the 1980s and early 1990s with their records (and reputations) intact are well placed to benefit now.

Investment returns in the future are unlikely to be as high, though. The lower levels of leverage reduce both the financial risks and rewards of buy-outs.

The demand side of the equation has yet to match the supply.

Several big-name sponsors who put together new investment partnerships last year have yet to put any of the money to work.

In part, that has been due to the high level of activity in the public equity markets. With the stock market putting a historically high valuation on many companies, anyone looking to dispose of a business has tended to do so either through the initial public offering (IPO) market, or by selling to another company which can issue equity at a high earnings multiple to pay for the acquisition.

Those big buy-outs that have been done this year have tended to involve the sale by large corporations of businesses they no longer consider to be central to their operations. Often, these companies are also looking to raise cash.

One of the most active buy-out funds recently, New York-based Clayton Dubilier & Rice, has rung up a list of such transactions, buying businesses from ailing corporate giants like General Motors and Westinghouse Electric.

"We concentrate on buying properties from corporations," says Richard Braddock, a Clayton Dubilier partner and former president of Citicorp. Competition for these deals does not come from the public equity markets, he says: "The people we find ourselves in competition with are corporate buyers."

This year's small handful of $1bn-plus deals have followed this pattern, including the sale by General Motors of its car rental business and the disposal by Kmart of PayLess, a drugs store chain.

Jonathan Sockaloff, a general partner of Leonard Green & Partners, the Los Angeles-based buy-out firm which handled the PayLess deal, says: "It was a classic case of a large company having to concentrate on its core business, and having to raise cash through the sale of non-core businesses."

There are several reasons to expect the level of buy-out activity to rebound further in the coming months.

For a start, higher US interest rates are likely to help the buy-out market more than hinder it. They help by taking the shine off the public equity markets, reducing the options available for selling a company: the IPO market has wound down as interest rates have ratcheted up. As yet, though, equity prices have not dropped to the sort of bargain levels that tempt buy-out funds back into the market in force. Says Mr Braddock: "The prices today are still generally quite high."

Higher rates also hinder deals, of course, by raising the cost of borrowing. But the lower levels of leverage make this less of a problem – and most buy-outs are tested against higher interest rate assumptions (though a much bigger spike in rates than has yet been seen would pose more of a challenge).

"You have to adjust the interest rate structure to the reality of the interest rate market you are in," says Mr Sockaloff.

"We can achieve our required rates of return in this interest rate environment, or even a higher interest rate environment," Mr Sockaloff continues.

Another reason to expect a rebound in buy-outs is simply the amount of cash available. With the war chests full, there is an army of deal sponsors scouting for transactions.

There is also plenty of debt finance available to back these deals. Commercial banks, which largely abandoned leveraged deals in the early 1990s, are back in force, seeing this as one of the most profitable areas in which to put their excess capital to use.

The bank debt has in part plugged the gap left by a scarcity of high-yield (or junk) bond finance. Last year, high-yield mutual funds provided the bond market with ample funds to back acquisitions. Now, personal investors' mistrust of bond funds generally has carried over into the high yield area, halting the flow of new cash.

As the late 1980s demonstrated, when there is cash available, the deals follow. Whether that means that buy-outs will again become as big, leveraged and aggressive remains to be seen.

Germany: **Andrew Fisher** on the uphill struggle for institutions

Concept slow to catch on

Persuading owners of German companies to part with control so that managers can purchase a shareholding and take over has been an uphill struggle for banks and finance houses keen to promote management buy-outs.

Until recently, the concept of the buy-out (and the buy-in) made slow progress in a country which puts industrial performance far ahead of financial innovation. But MBOs are steadily gaining ground, even though they are never likely to be as commonly accepted as in the UK or the US.

One reason is the lack of so-called exit possibilities. Because of the slow pace of new issues on the German stock market and the reluctance of many companies to go through the listing process, it is hard for those financing MBOs to make a profit through share flotations. "It's a real shortcoming for the German financial scene that it still has an underdeveloped stock market," says Thomas Schlytter-Henrichsen, head of 3i Deutschland.

On the transaction side, however, the trend has certainly become more buoyant. "A lot has happened in the past few years," says Thomas Krenz of Schroders and Partner in Germany, part of Schroder Ventures of the UK. "Compared with 1989 or 1990, the market has become much stronger and more active."

Not only have German banks dropped their initial scepticism over this form of financing, but there are also now more foreign institutions with promising deals available, such as Goldman Sachs, the US investment bank. "The market will get better in the long term," adds Mr Krenz, "but I don't think a buy-out culture will develop as it has done in the UK."

Also encouraged by recent trends, but more positive about the outlook in coming years, is Mr Schlytter-Henrichsen. "This year, 3i has had its best result in Germany so far," he says. In the first 10 months of 1994, 3i (part of the 3i group of the UK) has carried out 14 buy-outs compared with nine in the same period of last year. Next year, he expects 3i to do more deals and forecasts the total number of MBO deals will expand by some 30 per cent annually over the longer term.

The 3i deals cover companies with turnover ranging between DM15m and DM260m, the value of the transactions being from DM10m to DM120m. "Businessmen are seeing that management buy-outs and buy-ins are quite normal now and a normal part of the mergers and acquisitions market. Now, they don't simply say they will sell to another company." More companies are now coming to 3i on their own initiative – "the word has got around that MBOs can be an attractive solution".

Along with this greater readiness to consider the idea has come more openness about letting deals be known. "Previously, the problem was that companies did not want to have them publicised," adds Mr Schlytter-Henrichsen. "This year, we've done a lot of very, very interesting transactions and some of the companies want them publicised."

This gradual dropping by sellers of their reticence to let the rest of the community know what price they had obtained for their businesses can only help spread the MBO message. Among the buy-outs handled by 3i this year are: Offset Gerhard Kaiser, a high-quality printing concern with turnover of DM65m; Passport-Modevertrieb, a fashion house with DM75m turnover; and Ama Holding (furniture) with DM20m.

3i has also just concluded a deal involving a much bigger company – based in Bavaria, with turnover of DM260m – about which it can give no details, except that it is a world market leader in its area of manufacturing and highly profitable. 3i's most recent deal led to the formation of Brahms Diagnostika, the former diagnostic services division in Germany (with DM42m turnover) of Dow Chemical of the US.

Although several institutions have pulled out of the German MBO market after entering with high hopes, Mr Schlytter-Henrichsen says others have come in. One of the best-established is Schroders which led one of Germany's biggest buy-outs, that of Ex-Cell-O, the machinery company, in 1987.

This year, it has carried out another sizable buy-out, that of the all-terrain vehicle company of the Kässbohrer group. That deal was one of the five biggest MBOs to have occurred in Germany to date, says Mr Krenz. The company has a turnover of DM170m and is very profitable. Schroders has done four deals this year, the others involving companies in the automotive, fireproof tiling and paint equipment sectors.

Now that the recession in Germany has ended, more companies are coming back into the market, adds Mr Krenz. They are looking to offload subsidiaries that are not central to their activities but which are now in better financial shape to sell than a year or so ago. Also, the imminent 7.5 per cent solidarity tax surcharge (to help pay for German unification costs) is prompting owners to try and sell their businesses before this comes into effect next year.

The German MBO total for 1994 should exceed 60 deals compared with around 50 in 1993, Mr Schlytter-Henrichsen reckons. In the absence of exit possibilities through the stock market, the main method of cashing in on successful MBOs is by trade sales to other companies. Susan Deacon, assistant director of Morgan Grenfell Development Capital in the UK, says the existence of a more developed stock market would help the MBO scene. "We are very conscious with German buy-outs that exits are not easy."

So far, Morgan Grenfell has not transacted any German MBOs, but it is looking hard for the right deals. Its powerful parent, Deutsche Bank, invested in its previous buy-out fund and is putting £30m (next to Morgan Grenfell's pounds £70m) into its latest £300m fund. Of that total, around a quarter will go into western European buy-outs, mainly French and German.

The entrepreneurs are there, she says. It is just that the right deals take time to find. That is a problem with which Morgan Grenfell's competitors are all too familiar.

France: a relative lack of activity but the future looks good, says **Andrew Jack**

Intriguing success stories

The market for management buy-outs has generated some intriguing success stories in France over the past few years: a radio station with the slogan "all the pops and none of the flops"; a rubber boots business; and a company providing artificial insemination for animals, to name just three of the more bizarre.

But perhaps more significant than the quirky nature of any of the particular examples is the fact that those involved in the sector can quickly call to mind all the transactions that have taken place. One of the reasons is the relative lack of activity in France.

Compared to the UK and the US, France has a long way to go to catch up. Edmund Truell, managing director of Hambro European Ventures, says: "We have done four transactions in the last two years." That is a figure of which he claims to be proud in a division which only expects to carry out three or four across Europe each year. "The market is under-developed.

"We find France a good market to operate in compared with the southern parts of Europe," he says. "It has relatively clear-cut legal, accounting, tax and other information requirements and a strong code of conduct. You can resort to the courts if you need."

However, he also says: "The standard of confidentiality is lower than in the UK. Everyone knows about your deal before you do." He adds that it is important to use "political savvy" and work close with local French partners. "The attitude of 'the Brits are here, get out of the way' does not go down well."

Mr Truell says the bulk of the transactions in France of which he has experience are an amalgam – with the owners wanting to expand capital and strengthen management. "They are very rarely simply management-led acquisitions," he says. "They normally leave the existing owners with a significant stake. It gives them two bites of the cherry and avoids a too lengthy debate about value."

"The French market is very much smaller than the UK," says George Elliston, a partner of Domino, a Paris-based corporate finance boutique. "The culture is just not there to go in to companies to talk about financial leverage. At some stage you need to have a management taking the initiative by coming to you saying we want to do an MBO. It just doesn't seem to happen."

Arnaud Limal, managing director of Schroeders in Paris, says: "There has certainly been a tightening of credit. The financial conditions are a lot tighter than in the UK. It has been less part of the culture to consider buy-outs from companies."

That is not the complete story, of course. Ciclad, a French company, is raising FFr300m ($59m) for a new fund which will invest in MBOs. Created in 1988 with supporters including IDI, a development capital company which was itself an MBO from a government agency, it has invested in some 40 others.

Thierry Thomann, one of the partners, stresses that leverage is much less important in French buy-outs. "We don't have lots of asset stripping."

Continued on next page

Italy: **David Lane** says the outlook is increasingly optimistic

Uncertainty slows activity

Lean pickings rewarded the efforts of investment bankers and corporate finance advisers operating in Italy's buy-out market during the three years of recession from 1991 to 1993. Figures from KPMG Peat Marwick show that only 15 MBOs and MBIs were concluded last year. While a slight improvement on 1992, it was only one half the level of activity recorded in 1990.

"Last year was awful," says Paolo Colonna of Schroder Associati, who sees this year as one of transition. "The economy is picking up, but the corporate sector and banks still have problems. The low level of completed buy-outs reflects this," he says.

Others are more bullish. Dante Razzano, Morgan Grenfell's managing director, believes that when the figures are extracted at the year-end, the total will be reasonable. "There is a lot of activity at the moment, albeit few transactions are being closed."

Stefano Tanzi at KPMG Peat Marwick, which studies buy-outs, is also optimistic, noting that a dozen transactions were closed in the first half of the year. "There are numerous operations in the pipeline. We expect an increase that could take the total as high as 25 this year," says Mr Tanzi.

Uncertainty is putting a brake on action. Italian managers and company owners are holding back on decisions until the political and financial situation becomes clearer.

Many expected that the elections in March which led to a pro-business, right-wing government would stimulate buy-out operations. However, expectations of government decisiveness in matters such as privatisation and the adjustment of public sector accounts, and of measures to encourage innovative financial operations, have been disappointed.

Italian MBOs/MBIs

1990	30
1991	15
1992	13
1993	15
1994*	20

*Source: KPMG Peat Marwick and estimate**

While economic activity has picked up sharply in Italy this year, with industrial production rising steeply and exports booming, significant problems remain unresolved. The continuing large public sector deficit and the enormous weight of accumulated public sector debt overhang the financial system. There is concern that inflation has not been tamed. Interest rates seem to be on a rising trend.

"The cost of money, now up to 12 per cent, is definitely a factor in making managers think carefully before deciding on a buy-out. They ask themselves about the direction and magnitude of future rate moves, and the answer is most uncertain in the present situation," remarks Mr Tanzi.

At the same time, the authorities are urging caution on banks whose non-performing loans have risen significantly over the past three years. Quality of lending has become an issue in bank boardrooms.

This may explain why there are funds looking for transactions. "There is a lot of willingness by serious lenders to provide money again," notes Mr Razzano. Mr Tanzi also says that large amounts of finance are available for equity and debt.

The downward trend in the average debt-to-equity ratio in transactions is possibly a factor in encouraging lenders. Protagonists in leveraged operations have become more cautious about debt during the past four years, and the debt-to-equity ratio is one half of the level recorded in 1990, though KPMG Peat Marwick report that debt-to-equity ratios are significantly above average in large transactions.

Does the availability of funds but few takers mean an absence of significant opportunities in Italy? Investment bankers and corporate finance advisers do not believe this is so. Schroder Associati's Mr Colonna says that privatisation will continue to offer opportunities. "Buy-outs will also arise when large groups are restructured and in the process of internationalisation," he suggests.

At KPMG Peat Marwick, Mr Tanzi says that changes in the ownership of family companies will bring many buy-out opportunities during the next decade.

Mr Razzano at Morgan Grenfell has a shorter time scale. "Next year Italy's buy-out scene will be very active," he forecasts. All agree that pickings should be fatter in the future.

Case study: ESAOTE

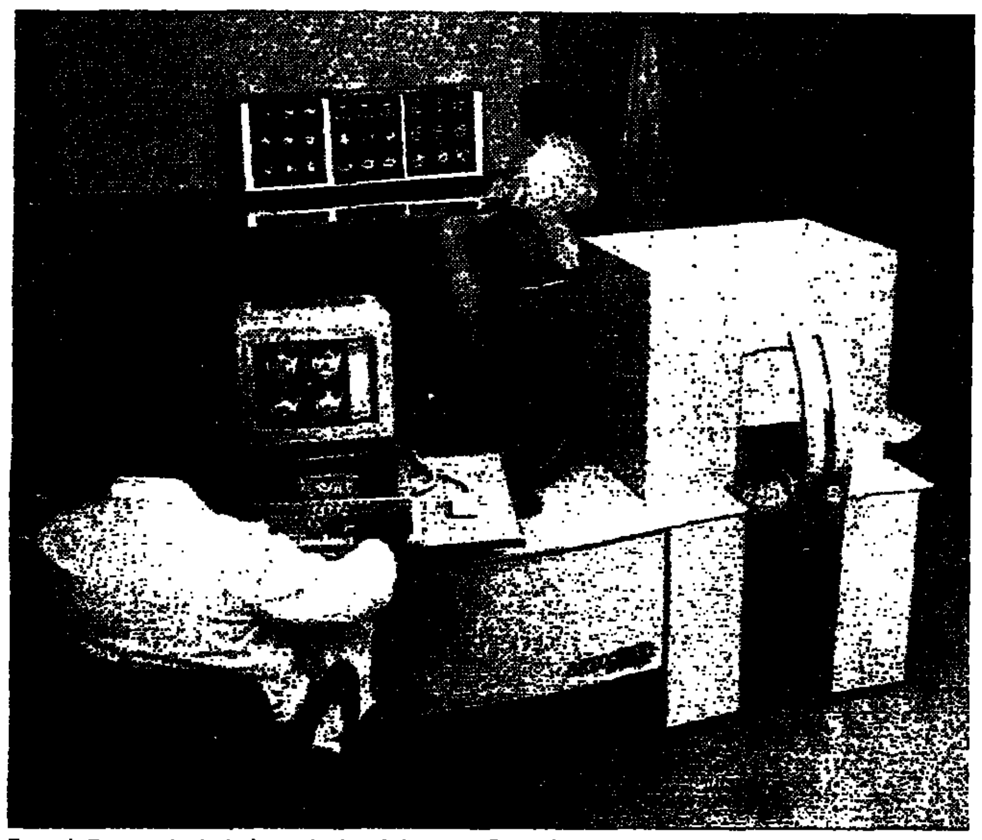
Landmark for privatisation

"This buy-out is based on expansion," affirms Andrea Oberti, general manager of Esaote, the Genoa-based medical equipment maker.

"Many buy-outs aim to produce results through restructuring and cuts. Esaote intends to continue growing and this is underlined by the commitment to maintaining annual research and development spending at more than 8 per cent of turnover," he adds.

Annual spending on R&D will stay at more than 8 per cent of turnover

Mr Oberti was one of four senior managers who helped set up Esaote in 1981 and who led the MBO operation that was finalised in July. It is probably Italy's most significant transaction this year. With a L55bn ($36m) price tag, it is substantial by Italian standards. But it is also a landmark for privatisation in Italy, the seller being the Finmeccanica sub-holding of the IRI state holding corporation.



Esaote is European leader in the production of ultrasound diagnostic equipment

Established as the Biomedical Division of the IRI-Finmeccanica Ansaldo company, after sophisticated medical equipment had been identified as a strategic growth sector, it made profits within three years. The Montedison-Farmitalia subsidiary, Ote Biomedica, was acquired at the end of 1986 and Esaote formally established as a joint stock corporation in 1988.

"Our mission is to provide niche markets with leading-edge technology in equipment offering high performance to price ratios," says Mr Oberti.

Esaote is European leader in the production of ultrasound diagnostic equipment. "We have recently launched a magnetic resonance imaging sys-

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LARGER MANAGEMENT BUYOUTS 1990/94 (TOTAL FUNDING IN £M)

£m	1990	1991	1992	1993	1994
10 - 25	* Anglian Fast Foods (10) Chemical Manuf. & Refin. (10) CSE Aviation (10e) * Fairmead (10) Lambert Smith Hampton (10) Mercury SDS (10) Morris Homes (10) Peter Cox (10) Saith (10) SMT Omnibuses (10) * The Wilcox Group (10) Viscount Catering (10) * East Lancs Paper Mill (11) Eaton-Williams (11) * Juliana's Leisure Group (11) Cambridge Capacitors (12) Fogarty (12) John Wilman (12) Licensed Clothing (12) Premium Life (12) Artfresh (14) * Cannons Sports Clubs (14) * Hermes (14) Teamreason (14) Astra Training Services (15e) * Canonbury (15) English Glass (15) * Lydiashourne (15) * Betta Stores (16) Kosset Carpets (16) Goldcrest (17) Maclarlen Smith (17) Alexander Drew (19) Flexpack (20) Staffordshire Tableware (20) * Wimpy Restaurants (20) Toplis & Harding (21) W W Group (21) Baileys (24) Saga Leisure (24)	* Ambion Homes (10) Davenham (10) Pleasureworld (10) Amcliffe Homes (11) * Boythorpe (11) Games Workshop (11) Samuel Banner (11) * Tellscher Brothers (11) Carpetland Carpet Centres (12) Gibson International (12) * National Express II (12) * Wallace International (12) Lodge Care (13) Power Group International (13) * BPW Group (15) * Sitex Security Products (15) Systems Reliability Comm (16) * Eagle Taverns (17) Kingsgrange (17) * Bright Reasons (18) Litho Supplies (23) PL Holdings (24)	* Audio & Vision Furniture (10) Sharelink Investment (10e) Coolkeeragh Power (11) Dopra Systems Integration (11) Whitworth's Produce (11) Cascade Clubs (12) DEW Group (12) Prontaprint (12) Edgemond Group (13) * CCA Stationery (14) * Chamberlain Phipps Group (14) * Harrison Industries (14) Interactive Media Services (14) Barrett Steel (15) Ouds Bytach (15) Canadian Pizza Crust (16) Hamlet Group (16) Vymura International (16) Alco-Qualcast (17) Inspectorate (18) Mark Birkbeck (18) Fermec Manufacturing (20) Nimbus Manufacturing (22) * Discovery Inns (23e) * RSA Advertising (23) Zotefoams (23) Foster Menswear (24)	Dynamic Leisure (10) Erin Group (10e) Inenco Energy (10) Aerospace Composite Tech (11) Petty Wood (11) Universal Ceramic Materials (11) Crown Buckley (12) Granger (12) Westwind Air Bearings (12) Economic Insurance (14) First Mortgage Securities (14) * Fleetfoot Racing (14) Lowe Alpine (14) Robison & Davidson (14e) Douglas Concrete & Aggregates (15) Radiodetection (15) * Charles Letts (16) Gold Crown Foods II (16) * Hancock Group (17) National Leisure Catering (17) Citrus Colloids (18) * North East Slag Cement (19) * Benjamin Priest (20e) * Maiden Outdoor Advertising (20) * Quadramatic (24)	* Avon Marine (10) Beck & Pollitzer Eng (10) Dartington Crystal (10) East Lancs Paper Mill 11 (10) Gloystarne & Co (10) * Hobby (10e) Independent Parts Group (10e) Pioneer Exhausts (10) ATS Technirent (11) Ekco Group (11) Livingwell Health & Leisure (11) * New World Dom.Appliances (11) New World Payphones (11) Basys Holdings (12) Hamilton Rentals (12) Harbury Group (12) Merlin Distribution (12) * Victor Products (12) * Xtra-Vision (12) * Don Millers Hot Bread Kitchens (13) Electron Technologies (13) Melville Exhibition Services (14) Monitor Group (14) * WRM Logistics (14) * House of Hannover (15e) Merlin Flexible Packaging (15) * Vector Industries (15) Nestor Medical Services (17) * Network SI Group (17) * BSK Aluminium (19) * Paramount Hotels (19) Innovative Electronic Components (20) Premoda Group (20) * Whichford International (20) Corner (21) Corin Medical (21) Bredon Group (22)
25-50	Keller (26) Hozelock (27) * Ravenhead (27) Appledore Shipbuilders (31) Roxboro (31) * United News Shops II (33) Normand Motor (34) United Pressings & Fabric (35) Inveresk (40) British School of Motoring (42) * Walter Alexander (42) * David Brown (46)	Babcock Prebon (25) * Lyric Hotels (26) Bison Holdings (31) Abbotts Barton Group (34) * Century Inns (34) Eurovein II (34) Blue Arrow Personnel (36) RPC Group (37) Nelson Hurst (38) MediMedia Services (41) * Port of Bristol (42) * Inspec Group (45) Salt Union (49)	Clydeport (26) Firstead (26) Swift Transport (26) Standard Fireworks (27) British Technology (28) * Centric Pub Co (29) Civil & Marine Slag Cement (29) * Marr Taverns (30e) Holmwoods Group (33) Port of Tilbury (London) (33) * Sycamore Taverns (35e) Medway Ports (41) Leyland Trucks Manufacturing (35e) Belhaven (36) Solartron Group (39) Cortworth (40) * Ultra Electronics (48)	Boulton & Paul (25) * Mercury Taverns (25) Sphere Drake Holdings (25) Strathclyde Buses (25e) The PJH Group (25) * Hydron (27e) City Technology (28) Galliford Homes (30) Lombard Insurance (32) Peverel Management Services (32) Victrex (32) British Int Helicopters (33)	GB Glass (25) * Quexco (25e) CentreWest (27) Greater Manchester Buses South (27) Greater Manchester Buses North (29) Stalwart Assurance (33) Pascon (34) Vero Electronics (34) Morris Mechanical Handling (35) Nation (40e) * Charringtons Fuels (42) Kruger Tissue Group (42)
50-100	Hay Group (50) Portfolio Foods (73) Really Useful Group (77) Anglian Group (84) * Pavilion Services Group (95)	* Enterprise Inns (56) West Midlands Travel (71) National Transcommunications (75) * Ushers of Trowbridge (75) Expro International Group (62) * Teeside Holdings (63) Primary Industries (73) Caledonian Newspapers (94)	Aerostructures Hamble (54) Kier Group (54) * Unicorn Abrasives (56) Goldsborough Healthcare (58) SLD Holdings (91)	Leyland Daf Vans (52) Ashbourne Homes (53) * Multipart Distribution (54) * Colas (73) * Principal Hotels (69) Holt Lloyd International (80) * Calder Group (85)	Levington Horticulture (50) Belfast International Airport (53) * Croydon Land & Estates (61) Thorn Security (65)
100-250	Landhurst Leasing (158) Yardley of London (160) * Jarvis Hotels (215) Devro (108) Field Group (121) Midland Independent News (134) Bristow Helicopter (200)	Brunner Mond (101) Taunton Cider (101) Data Sciences (103) Gaymer Group (140)	RJB Mining (103) Express Foods (118) Erne Holdings (128)	McDonnell Douglas Information (120) Eurodollar (192) Thorn Lighting (200)	* Magic Pub Company (100) Dollond and Aitchison (114)
250+	Del Monte Foods (258)		Gardner Merchant (422)	* BP Consumer Product Division (273)	Nutreco (368)

Larger management buy-outs are taken as those with total funding of over £10m (subject to allowance for inflation until 1986)

UK MBOs include MBI/BIMBOs (indicated with an *), but exclude leveraged acquisitions where the managers' stake is incidental, refinancings and UK funding of businesses with overseas head offices

Source: KPMG Corporate Finance, 1 October 1994. KPMG Corporate Finance has compiled this information from public sources and from participants in the UK MBO market, but has not verified it independently

Intriguing success stories

Continued from page 10

he says. "We invest development capital and are active partners in companies."

But he concedes, too, that "we started rather later in France than in the UK". He says there is now a "real market of managers who want to buy their companies and don't just want to be employees".

But he adds that this has only started to come to fruition, where a few years ago the idea of a family company selling out was considered as a failure.

One of the traditional problems for the growth of MBOs in France is that the law prevents bankers securing their loans against the assets of the target company.

They must instead rely on cash flow from the holding company making the acquisition. That can act as a disincentive to potential financiers.

However, Jean Bereget, head of acquisition finance for Paribas, defends this system. "What's the use of choking a company if the financial side doesn't go well?" he says. "If there is a fruit tree that has been producing a good crop for 60 years, we want to be reimbursed from the fruits, not by burning the tree or cutting it down to make planks for furniture. This system preserves the operating side of the company where otherwise there could be a financial temptation to cut it down."

For critics of the current French system, however, the law makes the merging of holding and target companies more difficult than some other jurisdictions. This can have important tax implications and make the process of consolidating the two cumbersome.

In addition, the disappointing performance of the French stock market – especially in the past two years – has made the exit route through quotation less easy than in other countries. "It has been difficult to exit, and a lot of funds have not been able to turn their position around," says Mr Limal.

All this is clearly beginning to change. The classic tale told by corporate finance advisers is of a market bulging with potential MBOs.

France is particularly well endowed with a small- and medium-sized business sector (the "PME" or *petit et moyen* enterprise) of profitable, privately-held companies.

Many were founded after the second world war, and their creators are now reaching retirement age. Lack of interest by their children – or a reluctance to deal with such a succession process – means that there is suddenly enormous scope for managers or employees to buy out the company from its original owners.

"I think you can expect growth in MBOs in France," says Frederick de Broglie, managing director of 3i France, the venture capital company. "It's a question of culture. There is an awareness by subsidiaries now that MBOs are a way of becoming rich and becoming your own boss."

There are really exciting prospects for companies in the FFr200-300m range," says Hambro's Mr Truell. "I am optimistic. There are relatively few people doing MBO advisory work in France – and long may it continue!"

Richard Gourlay looks into the future as Wigits is sold to its management

The most important deal of your life

The process of raising money for a management buy-out involves managers in the most important deal of their lives. Few will have relevant previous experience. Here is a version of how a deal might evolve and be structured and how it might turn out for the venture capitalists and the MBO team

David Mann knew something was up when he saw his boss's car in the company parking lot. As managing director of Wigits, the engineering subsidiary of Publico Ltd, he would have expected notice of a visit from head office.

He soon unravelled the mystery. "Good news and bad news, David," said Andrew Suit, group planning supremo, tetchily. "The board's been persuaded by some damned institution that Wigits doesn't fit in our corporate strategy. I don't agree, but there you are. You have three weeks to mount a management buy-out or the board will offer the company in an auction. Keep in touch."

Mann's jaw fell as Suit swept past him to the car park. Wigits's five-strong executive team had often dreamed about an MBO. But now it was thrust upon them Mann knew they had no idea where to begin.

As he hurried along the corridor to his finance director, he wondered why the normally amiable Suit had been so abrupt. Could it be because he would be left out of the deal? Or was it because the sale of Wigits would shrink Suit's empire?

His reverie was ended when he nearly collided with Alan Counter, the finance director. "Alan, great news – we've been given the opportunity to mount an MBO – call the accountants," Mann said.

A week later, after a series of preliminary meetings, Mann and his team were sitting in the offices of Grapple Ventures, an investor in MBO and MBI teams which had kept particularly close to Wigits's local accountant.

The tension was palpable. While Mann needed Alan Counter in preparatory meetings because of his knowledge of the figures, Grapple had just brought him bad news. While he was a fine subsidiary finance director when it came to dealing with a head office, his skills would not be relevant or appropriate when Wigits had its own shareholders and was heading for a flotation. Grapple had concluded it would need to bring in a new finance director.

Mann and his team had already burned the midnight oil to reassess their profit projections.

There was nothing like potential ownership of the business to encourage close examination of every budget line – what Mann referred to as "rooting out contracts to service the office rubber plants".

Before the buy-out was mooted, Wigits's performance had been steady but unspectacular. Pre-tax profits were £6m in 1993 from sales of about £80m from the main specialist metal business and Wigits's smaller components manufacturing operation. The two businesses had net assets of £52m.

The trick was to come up with an offer for Wigits both acceptable to Publico and attractive to Grapple Ventures or another MBO backer. An added complication was that the management of the components business had got wind of the deal from Publico and said they would be highly disillusioned if they could not mount their own buy-out.

There is nothing like potential ownership of a business to encourage close examination of every budget line – what some call the 'rooting out of contracts to service the office rubber plants'

Grapple cautioned that the first priority must be to focus on a deal with Publico. The starting point, the financiers said, was to ascertain how much debt the business could support on reasonable profit projections.

Grapple believed the £6m profit could become £7.5m in 1995, £9m the next year and £11m by 1997. Despite the relatively steady cash flow from operations, Grapple wanted interest to be covered at least twice by pre-tax profits. With an all-in interest cost of 10 per cent, £6m of profits could support an interest bill of £3m - or £30m of debt.

Next, Grapple took a sighting shot at how Publico might value the engineering business using a reasonable market multiple. Looking at prospective profits of £7.5m (post-tax profits of about £5m) and a p/e multiple of about 12, Grapple reckoned £60m would be a reasonable price.

The question was whether investing £30m of equity (£60m less £30m of debt) would give Grapple an adequate return. The answer was no. At that price, the financier's annualised rate of return, assuming a flotation in three years time at the same p/e multiple would be in the low 20 per cent area.

Back to the drawing board. Mann, with the bit between his teeth, suggested Grapple had been too pessimistic about the speed at which re-focused management could accelerate profit growth. Grapple was adamant. Wigits might think it knew its market but the financiers had seen more missed projections than Mann had had hot dinners.

Wigits tried another tack. "What about putting in more debt," said Mann who fancied himself as something of an instant expert on MBO financing. "I'm told that all those banks that stopped lending to MBOs in the early 1990s are shovelling out money in bagfuls, claiming they never left the market. Let's leverage up a bit. Our cash flow is solid enough and it'll raise your IRRs [internal rate of return]."

Grapple had thought of this. The recent appetite for banks to put on assets was already worrying, bringing back memories of the highly-geared deals such as Magnet and Isosceles in the late 1980s.

The senior partner would not budge. If more debt was loaded in, the assessment of an acceptable return would also have to rise to compensate for the increased risk.

Looking at a lower £57m price for Wigits, Grapple was happy with the numbers. Mann was worried this would not wash with Publico. But as time was ticking by his mind turned, not for the first time, to what the management team would get and how much they would have to invest.

By now familiar with the alchemy of MBO gearing, he knew the answers were respectively lots and not very much.

At a purchase price of £57m, Grapple would be putting in £27m of equity. But £26m of that would be in the form of preference shares or subordinated loan stock which would be repaid first. Grapple would be putting only £1m of pure equity into the transaction.

On the principle that management should put up a "meaningful" amount but that most managers were salary slaves unable to lay their hands on too much capital, the team would be putting up a total of £250,000.

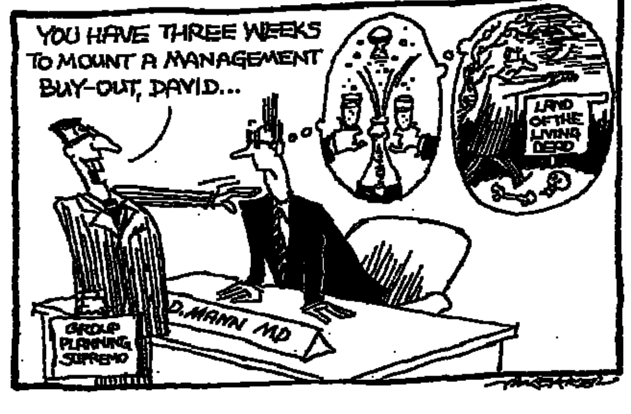
That would give them 20 per cent of the equity. Mann also wanted to build in ratchets to increase this stake if results exceeded expectations.

But that could wait. The issue of what to do with the components subsidiary had arisen again. First, its management might be seriously demotivated if they were forced to stay within the group and outside the Wigits MBO team. In addition, merchant bankers suggested Wigits could be more easily floated as a company if it were focused exclusively on specialist metals.

Selling the components business immediately would lead to a smaller capital gain for Grapple. But by focusing Wigits, it could float at a significantly higher multiple.

It all seemed so easy to Mann. Sitting in another interminable meeting with lawyers, his mind wandered to a sunlit day three years hence when the company was being floated on the stock exchange.

Champagne corks were popping and Grapple's senior partner was standing with his arm around Mann's shoulder. The business had indeed made £11m before tax, or £7.5m after tax, and had been floated in its entirety on a multiple of about 12 times. This gave a market capitalisation of £90m.



Senior debt, by then down to £23m after repayments, had been repaid, leaving £67m. Grapple had then received its £26m of preference shares, which left £41m to be divided between ordinary shareholders. Grapple had pocketed £33m for its equity, which with the repaid prefs gave it a total return of £59m – or an IRR over the period of 32 per cent.

And the management team had received £8m for its £250,000 stake.

Suddenly, this Elysian dream evaporated and was replaced by another altogether darker vision dominated by the smirking figure of Andrew Suit, head office planning supremo. Something had gone wrong. Wigits's sales must have collapsed – maybe the French contract had fallen through or the Americans were finally perfecting a ceramic substitute for metals. Sales were static. There was no flotation and no champagne.

Supportive but subdued, a junior Grapple executive was trying to retrieve something by re-negotiating a preference dividend. The wind whistling around Wigits's windows seemed to whisper "You are in limbo - the land of the living dead."

All characters and companies are fictitious and any resemblance to real companies or real people is unintended. Compiled in consultation with Morgan Grenfell Development Capital.

Landmark for privatisation

Continued from page 11

tem dedicated to extremities of the body. This will allow the costs of scans to be reduced by two thirds, an important selling point given the squeeze on health service spending," he says.

Revenues of L20bn from the magnetic resonance imaging system will help Esaote reach an estimated L207bn sales this year, from L177bn in 1993. Net pretax profits are expected to be L9bn, a healthy increase on L4bn in 1993 though still falling short of the L12bn and L14bn posted in 1992 and 1991 on sales of L179bn and L161bn respectively.

Esaote has been a steady profit-earner. Why was it privatised? Carlo Castellano, chairman and managing director, says: "The medical equipment sector was defined as unstrategic when the Amato government unveiled its privatisation programme in July 1992."

IRI-Finmeccanica appointed Wasserstein Perella as advisers in autumn 1992 and a trade sale was sought. But the trawl for potential buyers was unsuccessful. "None of the offers examined in February 1993 was satisfactory. Some fell short on price, while others failed on operational and industrial factors. So the privatisation was suspended. This was very worrying. The suspension created uncertainty and was damaging for the company's image," says Mr Castellano.

The MBO began a year ago when Mr Castellano and three colleagues teamed up with Sofipa, Mediocredito Centrale's merchant bank, which headed a group of investors. A letter of intent was signed in January and the contract, which became effective in July, followed in May.

"There were many difficulties. Italy seems impermeable to innovative financial operations like MBOs. Corporate and fiscal aspects are complex," explains Mr Castellano.

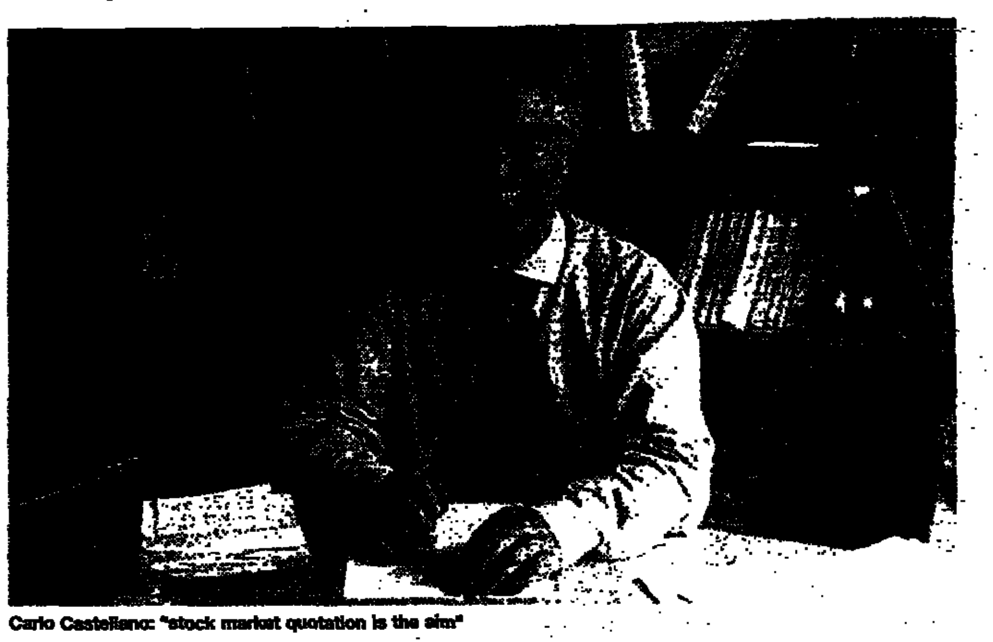
The next step is a L1bn bond issue with warrants, planned for the year-end

With the transaction concluded, he and his three senior colleagues, and Esaote's 20 other managers, hold a 10 per cent stake in the company's L30bn equity. Sofipa has 21 per cent, Advent International 32 per cent, IPEF 17 per cent, Arca Merchant 16 per cent and Euroventures Italy 4 per cent. Senior debt amounts to L25bn.

The next step will be a L1bn bond issue with warrants, planned for the year-end. This will be open to all the company's employees, 520 in Italy and a further 110 in other countries, thereby allowing full participation in the privatisation operation. And for Esaote's financial investors the exit route already seems clearly signposted.

"Stock market quotation is the aim," says Mr Castellano.

David Lane



Carlo Castellano: "stock market quotation is the aim"

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July 1992 - July 1994

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FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 1 1994

IN BRIEF

Hungary delays hotel sale decision

Hungary's privatisation authorities have postponed a decision on the controversial sale of its last remaining state-owned hotel chain. Page 30

Hasbro buys Monopoly
Hasbro yesterday bought Waddington's games division for £50m ($82m) in cash, giving the biggest US toy and games group a monopoly on Monopoly, the world's best selling board game. Page 16

Argyll shares fall after statement
A downbeat trading statement sent shares in Argyll, the UK grocery retailer, down 17p to 255p – the biggest fall of the day among FT-SE 100 stocks – in spite of a 4 per cent increase in interim pre-tax profits. Page 16

Merck decides to reverse course
Merck, the biggest US pharmaceuticals group, which began to merge parts of its operations with those of Medco Containment Services, the pharmacy benefit management group for which it paid $6.6bn (£4bn) last year, has reversed its course. Page 17

Du Pont lifts Seagram
Seagram, one of the world's top four drinks groups, reported a strong third quarter because of a bigger contribution from Du Pont, the US chemicals group in which it has a 25 per cent stake. Page 17

US machine-tool group buys into Europe
Cincinnati Milacron, the big US machine-tool and plastics machinery manufacturer, has announced its biggest European acquisition with the DM150m ($95m) purchase of a Krupp Hoesch unit. Page 17

Tisa lifts profits 47% after nine months
Net profit at Telefónica Internacional (Tisa), the overseas arm of Telefónica de España, Spain's state-run telecommunications group, rose 47 per cent in the first nine months. Page 18

Quantum to create $1bn India fund
The Quantum Group, managed by international financier Mr George Soros, is to set up a new India fund, underlining recent growth in investor interest in the country. Page 16

Thomas Cook gets purchase go-ahead
Mr Michael Heseltine, the UK trade and industry secretary, has allowed Thomas Cook Group, the travel company, to proceed on a temporary and conditional basis with its acquisition of Barclays Bank's travellers' cheques business. Page 22

Stockbroker queries value of BSkyB
The flotation of British Sky Broadcasting greatly overvalues the satellite television venture, according to research by stockbrokers Henderson Crosthwaite. Page 22

Drugs setback for British Biotech
British Biotech, has dropped two of its research programmes after disappointing results of early clinical drugs trials. Page 24

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)							
Rises				Canal Plus	910	+	30
Bil & Berg	818	+	14	Essilor Inf	760	+	22
Klöckner Werk	132.8	+	5.5	Fonc Lyon	560	+	28
Linde	896	+	14	Immobanque	858	+	18
Varta	318	+	11	**Falls**			
Falls				SLIC	680	–	19
Degussa	439	–	9	**TOKYO (Yen)**			
Thyssen	278.5	–	4.5	**Rises**			
NEW YORK ($)				Sanyo Pharm	937	+	67
Rises				Chiba Bank	930	+	35
Apache	27	+	1⅛	Tokyu	673	+	30
Amer Brand	35½	+	1	**Falls**			
Dupont	54⅞	+	¾	Aoki Corp	401	–	17
Eli Lilly	62¼	+	1	Fuji F&M	618	–	21
Pfizer	77⅞	+	1⅛	Shokusan	385	–	20
Un Carbide	28⅜	+	1⅛				
PARIS (FFr)							
Rises							
Air Liquide	743	+	23				

New York prices at 12.30pm

LONDON (Pence)							
Rises				Amec	73	–	4
City of London	93	+	6	Argyll	255	–	17
Glaxo Wellc	45	+	4	Babyfolk	230	–	20
Inspec	227	+	6	Cape	223	–	8
Jardine Stock	521	+	14	Ingeniatrics	138	–	12
Northern Elect	636	+	23	Kode Intl	57	–	14
Quicksmart	188	+	17	Leigh Interests	169	–	5
Sequel Corp	27	+	4	Lowell (T.F.)	63	–	4
Securicor	425	+	19	ML Labs	143	–	15
Sth West Elect	478	+	25	Mid Kent Hldgs	300	–	13
Trifast	100	+	12	Shanks McEwan	85	–	4
VideoLogic	38	+	3	T & N	166	–	20
Waddington (J)	285	+	9				
Falls							

JP Morgan wins Polish bond issue

By Nicholas Denton in London

J.P. Morgan, the US bank, has won the highly prized mandate to lead Poland's first sovereign bond issue since the country defaulted on its debts.

Intense competition between investment banks to handle the debut issue and the appetite of investors for Polish paper promises attractive terms for Poland.

J.P. Morgan is understood to have indicated pricing which would have yielded a spread of about 200 basis points over US Treasuries. That would allow Poland, a defaulter, to borrow more cheaply than Hungary, which serviced its borrowings throughout the debt crisis. An analyst said: "It means that markets are looking at outlook rather than history."

The bond issue, which is expected to take place around next March, would mark Poland's full financial rehabilitation after it reached agreement with its creditors earlier this year.

J.P. Morgan emerged from a initial field of 17 investment banks which narrowed to a shortlist of the five pre-eminent US bond houses: CS First Boston, Merrill Lynch, Morgan Stanley and Goldman Sachs, as well as J.P. Morgan.

Debut sovereign issues are prestigious and J.P. Morgan has won the most sought after such transaction since South Africa in November hired Goldman Sachs and Swiss Bank Corporation to handle its first bond issue since the end of apartheid. Morocco, Slovakia and Pakistan are believed to be considering similar transactions.

J.P. Morgan has also lead-managed CEZ's Eurobond issue, priced yesterday at 110 basis points over Treasuries, in which the Czech electricity utility became the first investment-grade corporate issuer on the Euromarkets.

The Polish decision, which is expected to be announced today, is a disappointment for CS First Boston which is understood to have undercut J.P. Morgan on the spreads it indicated. CSFB is strong in the eurobond market and in eastern Europe but has won few mandates to lead sovereign debt issues from the region.

Poland intends to seek ratings from Standard & Poor's and Moody's and the market expects it will receive an S&P rating of about BB+. That would put it just below investment grade and three notches below Czech sovereign debt, which carries a rating of BBB+. Investment bankers believe the prospects for further expansion may lead rating agencies to give Poland a positive outlook.

Capital markets, Page 20

Hoechst rises 83% in nine months

By Christopher Parkes in Frankfurt

Hoechst, the German chemicals giant, has set itself the goal of almost doubling the return on capital from its core European industrial divisions, said Mr Jürgen Dormann, group chairman.

Reporting an 83 per cent pretax profits surge to DM1.69bn ($1.08bn) in the nine months to September 30 and forecasting a further "strong" earnings rise for 1995, he said further rationalisation was needed. Restructuring costs and provisions this year would reduce earnings by about DM1bn.

European industrial operations, which embrace all sectors except pharmaceuticals and agricultural products, had returned to profit after losing DM600m at the operating level in 1993. "But we are still far away from acceptable return on equity. Our goal is to get a net return of 15 per cent," he said.

Mr Dormann said operating earnings from the industrial businesses shrank DM2bn between 1990 and 1993.

While stressing that the workforce cuts of the past few years were almost at an end – the group has spent DM2bn on redundancy schemes and other provisions to reduce its payroll by 17 per cent since 1991 – he said the group's cost and structural problems were still not resolved. Co-operative ventures such as the recent deal to merge the textile dyes operations of Hoechst and Bayer, were one way forward.

Mr Dormann was bullish on current conditions. The three-year decline in chemicals prices seemed to be over, and a rise in Hoechst's average selling prices in the third quarter had cancelled out declines in the first half. Volume sales had increased 7 per cent in the three months to the end of September, and by 5 per cent over the nine months.

Turnover rose 8 per cent to DM36.4bn, with almost DM20bn coming from Europe. In the US, where the chemicals industry was working at the limits of its capacity, the Hoechst Celanese subsidiary had increased turnover 15 per cent to $5.5bn.

US turnover rose only 5 per cent partly because of difficulties in the pharmaceuticals market including the expiry of Hoechst Roussel Pharma's patent on its biggest seller, DiaBeta. Hoechst Celanese also made provisions relating to defective pipes.

Lex, Page 14

Mexican watchdog looks at cable stake

By Damian Fraser in Mexico City

Mexico's competition commission is to face the stiffest challenge in its brief history following the announcement that Teléfonos de México, the country's monopoly telephone provider, is taking a 49 per cent stake in the cable television subsidiary of Televisa, the country's dominant media company, for $211m.

The proposed agreement would enable Cablevision, the cable arm of Televisa, to use Telmex's fibre optic cables to expand coverage of its subscription television service, and would help Telmex move into video and data telephony.

The venture would not be an exclusive arrangement, as other television companies will be able to use Telmex cables, but in practice the alliance would remove a potential competitor to Telmex in the local and long-distance telephone service, and give Cablevision a significant edge over its competitors in subscription television.

Telmex's concession prohibits it from exploiting "directly or indirectly, any concession for public television services", but Telmex argues that this does not prevent it from carrying Cablevision's signal on its network.

It is confident that regulatory approval will be given, on the grounds that the alliance would help both it and Televisa compete against foreigners who plan to enter Mexico's broadcasting and telecommunications market with local partners.

Telmex, with sales last year of $7.9bn, is Mexico's largest private company; Grupo Televisa, with sales of $1.9bn, owns the country's main television networks, as well as Cablevision. The two companies are respectively controlled by Mr Carlos Slim and Mr Emilio Azcárraga, Mexico's two richest businessmen.

The competition commission, which was set up in June 1993, can block mergers or alliances that it believes could lead to monopolistic. behaviour.

However, the commission may find it difficult to rule against Mr Slim and Mr Azcárraga, whose combined net worth is reported by Forbes magazine at more than $10bn, and who are generous contributors to Mexico's long-ruling party.

Telmex's move into Cablevision was applauded by analysts, who have been concerned about the company's prospects when the long-distance telephone market opens to competition in 1997.

Simon Davies finds T&N under fire after new asbestos bombshell

Burned again - 'How can we know this is the end?'

When British companies choose budget day to announce bad tidings, they are invariably suspected of trying to hide behind the chancellor of the exchequer's publicity skirts. In the case of T&N's announcement of £100m ($155m) provisions against future asbestos claims, this was clearly an unfortunate coincidence, but the reaction has been strident.

Its share price reflected the blow to management credibility yesterday, falling 20p to 166p, after a loss of 35p on Tuesday, for a 25 per cent fall in two days.

"The manner and the way in which the £100m exceptional charge has arisen can only be described as disconcerting," says Mr Sandy Morris, research analyst at NatWest Securities.

Only in August, T&N had put forward the argument that the worst of the uncertainty over asbestos claims was over, after a US judicial ruling provided a set framework to cover future claims. Mr Colin Hope, chairman and chief executive, said at the time that "there are good prospects that asbestos-related costs will now stabilise and then enter a period of progressive decline".

But one analyst said: "If you take this at face value, within a three-month period, the asbestos problem has got worse to the tune of £100m. So how can we know that this is the end?"

T&N said the charge resulted from a change in the type of claims that had appeared in the proliferation of cases that were lodged before the judicial ruling.

These cases are handled by the Center for Claims Resolutions, which combines claims against 21 member companies, who then pay a share of the costs according to their exposure to the cases.

Mr Hope said there had been a dramatic shift towards industries where T&N had greater exposure, which became apparent after sifting through "tens of thousands" of claims over the past month.

"The only thing that has gone wrong is that we didn't pick up that there was going to be this dramatic change in our share of the pre-global settlement [claims]," Mr Hope said. T&N's US subsidiary Flexitallic, for example, has become party to as many claims filed in 1993 as in the entire previous decade.

Back in September 1989, T&N's shares tumbled 9 per cent, after the company revealed a surprise £9m provision, in addition to its expected annual charge.

Few analysts suggested that the reaction to the latest provisions was overdone. The absorption of insurance cover means that the annual provision, which is in addition to the £100m, will rise to between £30m and £40m.

In many ways, the latest shock provides a vindication for the work of Mr Hope since he joined T&N – then called Turner & Newall – in January 1985.

The full extent of T&N's potential liabilities related to its former asbestos-producing operations was not then recognised, but Mr Hope became the architect of a strategy to expand its automotive components and engineering businesses.

T&N had a market capitalisation of about £60m, and could clearly not have withstood the £250m of asbestos-related costs that it has carried since Mr Hope joined.

One of the ironies was that the latest provisions come at a time when T&N's core operations are showing "continuing improvements in efficiency and further strengthening of demand". As one analyst said: "The pity of it is that you can't fault what the management have done strategically. If they had been able to relegate asbestos to a minor item, they would have been perceived as a high quality company."

T&N's past has caught up with it at an awkward moment. For three years, the management has appeased investors by maintaining its dividend against substantially lower earnings per share. It stemmed the impact by offering an extremely enhanced scrip alternative, but despite this, cash outflows have been substantial.

NatWest expects that high capital expenditure will lead to a net cash outflow of £31.5m next year, excluding acquisitions. With a full cash dividend, the figure would have exceeded £50m.

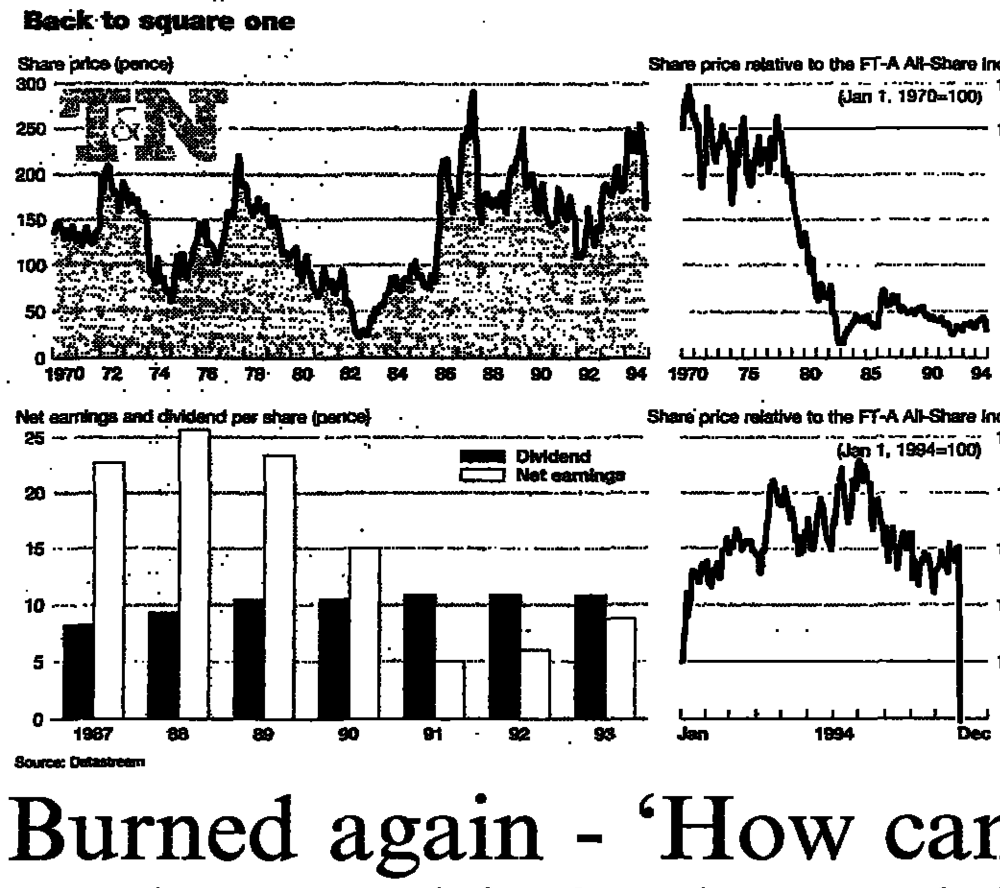
Gearing remains high – it was 60 per cent at the end of June – and will remain at around that level at the year end, following these provisions.

At the same time, T&N has identified a suitable German purchase, which would fit in with its strategy of building up globally dominant shares in its sectors. The problem is how to finance such a deal. Analysts estimate a 52.5 per cent stake in Kolbenschmidt, including the assumption of debt, would cost T&N about £380m. Gearing would therefore exceed 100 per cent.

A rights issue is expected, but after four cash calls in the five years up to mid-1991, there seems to be little enthusiasm from institutions. One fund manager pointed out that even before the provisions, earnings per share in 1995 would have been well below the 1989 figure.

Mr Hope said T&N was not tied to the acquisition, and will decide in March, after it gets a ruling from the German cartel authorities. "We are acquisitive in order to be a world player, so that we can ride the asbestos wave and come out a winner at the end."

Back to square one



Source: Datastream

BTR brings in outsider as chief executive of Nylex

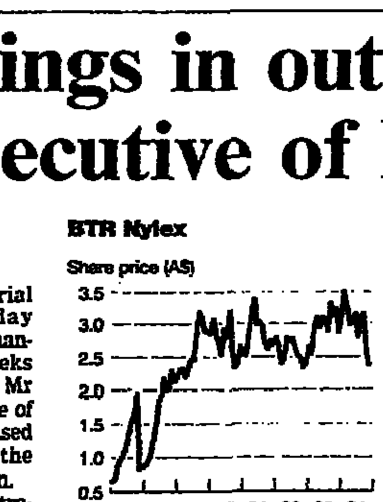
By Nikki Tait in Sydney and David Wighton in London

BTR, the UK-based industrial conglomerate, yesterday announced its second top management change in two weeks with the appointment of Mr Philip Aiken as chief executive of BTR Nylex, its Australian-based subsidiary. The move sent the shares of both companies down.

Mr Aiken, 45 and an Australian, is managing director of BOC Group's European gases operation. Mr Graeme Pearson, who was previously managing director of BTR Nylex, becomes managing director of BTR Nylex's operations.

The apparent sideways move for Mr Pearson and the unexpected appointment of Mr Aiken caused heavy trading in BTR Nylex shares, which are quoted on the Australian Stock Exchange, as analysts tried to interpret the changes. They closed two cents lower at A$2.40. BTR shares fell 1p to 286p.

BTR Nylex



Source: FT Graphite

BTR said that Mr Aiken's appointment reflected "the board's view that the group holds strong positions in areas such as Australia and the US, as well as the fast-growth area of Asia, offering a significant opportunity to expand". Mr Alan Jackson, BTR chief executive, added that Mr Aiken would oversee an expansion plan centred on the Asia-Pacific rim.

Sources close to the company said it signalled a more aggressive approach to acquisitions with Mr Aiken focusing on deals while Mr Pearson concentrates on operational management.

At the annual meeting in June, Mr Jackson said that he believed acquisition opportunities were emerging. Mr Jackson remains chairman of BTR Nylex, which in the 1980s he transformed from an obscure BTR belting subsidiary into one of Australia's largest industrial groups.

Nylex announced disappointing interim figures in September with after-tax profit of A$207m (US$99m) rising only 6 per cent on the previous year.

BTR's shares have been further unsettled by worries about management succession. Last week it announced the surprise retirement of Mr Bob Faircloth as chief operating officer.

Separately, BTR announced that it is to raise its stake in BTR Nylex from 59.8 per cent to 61.9 per cent. The increase is the result of the exercise of certain options held by BTR.

Hungary delays decision on hotels

By Virginia Marsh in Budapest

Hungary's privatisation authorities have postponed a decision on the controversial sale of its last remaining state-owned hotel chain. This follows the failure to meet yesterday's deadline for agreement with the top bidder.

American General Hospitality, a privately-held US company which outbid its nearest rival by more than 20 per cent, was last week close to signing a deal to acquire 51 per cent of HungarHotels when it was asked to raise its bid by another 20 per cent.

The two sides were unable to reach a compromise during further negotiations this week.

The sudden price increase, which came after local pressure to ignore the tender, has led investment advisers to doubt the government's willingness to sell the group. It also calls into question its commitment to privatisation at a time when it is budgeting for $3bn-$4bn in privatisation revenues over the next two years.

The State Property Agency (SPA), which is handling the sale, said yesterday it was considering re-opening talks with other bidders for the chain over the next two weeks. The other main contender for HungarHotels, which owns 15 hotels, is Intercontinental, the Japanese-owned international hotel chain.

However, the SPA also hinted it might cancel the sale, which is only the second significant privatisation since the socialist-led government took office in July.

Mr Gabor Halmi, SPA deputy managing director, said: "This is a high-value company. It is not a company we need to sell quickly and it is not a problem for us if we don't sell it now."

A cancellation of the tender would be a victory for the social security fund, which has campaigned against the deal. The fund, which is backed by powerful trade unions, is pressing the government to meet obligations to transfer state assets of Ft300bn ($2.7bn) to it and other related funds by handing over the hotel group.

Hasbro gains monopoly on Monopoly

By David Blackwell in London

Hasbro of the US yesterday bought Waddington's games division for £50m ($78.5m) in cash, giving the biggest US toy and games group a monopoly on Monopoly, the world's best selling board game.

Mention Monopoly in the UK, and people immediately think of Waddington. But the archetypal game of capitalists, once banned in the Soviet Union as ideologically unsound, was invented in the US in the 1930s.

Waddington has always been a printing company, diversifying into games in the 1920s by printing playing cards. The grandfather of Mr Victor Watson, who retired as chairman last year, obtained the Monopoly licence for the British empire in 1935. The licence was granted by Parker Brothers of the US, now part of the Hasbro empire. Hasbro itself had a licence to market Cluedo, the detective game owned by Waddington, outside the UK.

Mr Michael Buckley, chief executive of Waddington, said the sale of the games division was viewed with some regret, but it was matched by pleasure at how the group could use the cash. "The games division is a super company, but we did not think we could make it any bigger or better."

The deal will leave Waddington cash positive to the tune of £13m. It plans to invest further in both the printing and packaging divisions.

Hasbro earlier this year lost a battle for Scrabble with Mattel, its main rival in the US market. Mattel paid £62m for J.W. Spear, the UK company with the rights to Scrabble outside North America.

Hasbro, which owns the North American Scrabble rights, said it felt the winning price for Spear, at about 21 times earnings, was too high. However, it is paying about 21 times earnings for the Waddington division, which made operating profits of £3.5m on sales of £25.9m in the year to April, because of the quality of the portfolio.

Mr Brian Ellis, of Hasbro UK, said the Waddington catalogue had 850 items, only about 60 of which were games. Monopoly, which sold 300,000 sets in the UK last year, represented only 15 per cent of the turnover. "It is much more of a general toy company than a games company," he said, citing in particular the Get Set craft products, which expect 35 per cent growth this year.

Matsushita acquires Nokia tube factory

By Alan Cane in London

Matsushita Electronics Corporation, the Japanese electronics group, is to acquire the picture tube factory of Nokia Consumer Electronics in Esslingen, Germany.

The price is not being disclosed. Nokia, the Finland-based cellular telephones, consumer electronics and telecommunications equipment manufacturer, had said earlier this year that it intended to withdraw from the picture tube manufacturing business, closing its Esslingen and Straubing factories by the end of 1994.

Matsushita plans to refurbish the facility to manufacture up to 2m tubes a year in Germany. It already makes 2.4m a year at its factories in the US, 1.2m in Malaysia and 2.6m in China. The German facility will deliver colour tubes to Matsushita's factories and to other television manufacturers in Europe.

Panasonic, Matsushita's consumer electronics brand, currently takes picture tubes in Europe from Philips of the Netherlands and Thomson of France. Panasonic Europe's television division, based in Cardiff, UK, has been trying to increase the local content of products for the European market, at present about 72 per cent, to 82 per cent by 1966.

The Esslingen factory employs 2,100 who will be made redundant when it closes on December 31. Matsushita intends to restart production by the end of next March.

Nedlloyd net surges to Fl 43m for quarter

By Ronald van de Krol in Amsterdam

Nedlloyd, the Dutch transport group, posted a net profit of Fl 43m ($25m) in the third quarter, up sharply from a F l7m loss a year earlier, when results were burdened by extraordinary charges of Fl 44m.

The results, at the high end of analysts' expectations, would have been even better but for the weakness of the US dollar, the currency used in shipping contracts.

Group turnover fell slightly, to Fl 1.66bn from Fl 1.68bn. However, on a comparable basis, taking into account the dollar's decline and corporate divestments, turnover rose by nearly 5 per cent in the period.

In shipping, operating profit fell to Fl 24m from Fl 37m. Although cargo volumes were up 12 per cent, the sector was affected by the decline of the dollar, the rise in bunker fuel prices and one-off, start-up costs associated with the planned second sailing between Europe and the Far East scheduled for early 1995.

In road haulage, operating profit rose to Fl 23m from Fl 12m, extending the strong trend that emerged in the second quarter.

The third-quarter figures take net profit for the first nine months to Fl 78m, reversing the Fl 123m loss in the same period of 1993. For 1994 as a whole, Nedlloyd predicts net profit will be around Fl 90m, compared with a Fl 112m loss.

PowerGen wins tender to buy plant in Hungary

By Virginia Marsh

PowerGen, the UK electricity generator, said yesterday it had won an international tender to negotiate the purchase of the first Hungarian power plant to come up for privatisation.

It said it hoped to complete negotiations for the Csepel power plant, an independent power producer, by the end of the year.

The acquisition price has not been disclosed. However, PowerGen is believed to be considering investing up to $100m on top of the purchase price to upgrade the plant and construct a combined-cycle gas turbine generator at Csepel.

The existing gas-fired plant, located on an island on the Danube on the outskirts of Budapest, has installed electricity capacity of 43MW and 400MW in thermal energy.

It was built to service an industrial park and 12,000 households on the island.

PowerGen said the plant's proximity to Budapest and its population of 2.5m electricity users made it an attractive acquisition.

Under plans announced this week, Hungary aims to privatise a large part of MVM, its electricity monopoly, mainly through sales to western strategic investors over the next two years.

Deregulation and increased competition in the sector will widen the scope for independent power producers, such as the Csepel plant.

PowerGen, which began talks with the Hungarian privatisation authorities last February, is believed to have beaten competition from Germany, France and Belgium in the tender.

It said it hoped that the Csepel acquisition would strengthen its position ahead of expected intense competition for stakes in MVM companies next year.

Several of the UK's regional electricity companies are also looking for diversification opportunities in Hungary and other former communist countries.

Computer groups set up technical standards forum

By Louise Kehoe in San Francisco

Apple Computer, AT&T, IBM and Siemens yesterday announced plans to work together to encourage the adoption of technical specifications that will improve the compatibility of computer and telephone systems.

The companies said their goal was to identify, develop and promote open technical specifications for data communications among a variety of devices such as personal computers, personal digital assistants, telephones and private branch exchanges.

"The revolution promised by the convergence of telecommunications and computing will not reach its full potential unless our industries agree to open, interoperable standards that make using a PDA, telephone and notebook computer together as easy as turning on the different components of a stereo system," said Ms Ellen Hancock, senior vice-president of IBM.

The group initiative, called Versit, will become a forum for establishing technical specifications, the companies said.

The group is "small enough to get things done, but large and diverse enough to make an impact," said Ms Hancock.

Versit will work with other communication and computer companies, as well as standards organisations.

It is not clear, however, whether Versit will win the support of other companies such as Intel and Microsoft that play a central role in establishing de facto standards in the computer and data communications industries. Although presented as a neutral body that will further the objectives of the computer and telephone industries, Versit will inevitably be controversial because differing technical specifications are often competitive issues.

It is also uncertain whether Versit will be able to persuade other companies to co-operate in widely licensing their technologies to create standard specifications.

Past computer industry efforts to establish "open systems" specifications for interoperability between equipment made by different vendors have seldom lived up to their promises.

Versit members say they will tackle technical problems encountered by all users of computer communications.

Shares in downbeat Argyll drop 17p

By Neil Buckley in London

A downbeat trading statement sent shares in Argyll, the UK grocery retailer, down 17p to 255p – the biggest fall of the day among FT-SE 100 stocks – in spite of a 4 per cent increase in interim pre-tax profits.

Profits before tax for the 28 weeks to October 15 rose to £205.3m ($320.3m), from a restated £197.3m.

The market was disappointed by a 0.8 per cent fall in like-for-like sales in Argyll's Safeway chain in the past six weeks, in spite of an aggressive marketing campaign. Analysts were also disappointed that the group did not give more details of restructuring plans.

Sir Alistair Grant, chairman, defended the group's achievement in maintaining its operating margin at 7.1 per cent in a competitive market. He said Safeway's 9 per cent improvement in sales, but with only a small increase in market share, suggested the total grocery market was expanding more quickly than observers had predicted.

Mr Colin Smith, chief executive, said Safeway had adopted marketing initiatives aimed at attracting more young families. It had launched a £7m advertising campaign, lowered prices, and introduced cut-price own-label products. Gross margins had fallen about 0.1 of a percentage point.

Total group sales rose 7 per cent from £3.14bn to £3.36bn. Safeway's sales rose 9.3 per cent to £2.78bn, with 9.6 per cent growth from new stores offset by a 0.3 point fall in existing stores. However, price deflation of 0.5 per cent masked an underlying volume increase of 0.2 per cent in existing stores.

Safeway lifted operating profits 9 per cent to £186.2m, but sales growth in the second half slowed to 7.2 per cent, with a 0.8 per cent decline in existing stores. Sales in Presto and Lo-Cost fell 3 per cent to £583m, with operating profits unchanged at £20.9m. Part of the decline resulted from the sale of the Lo-Cost chain and 28 Presto stores.

The interim dividend was lifted 4 per cent from 3.75p to 3.9p, with earnings per share also up 4 per cent at 12.8p.

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Quantum to create $1bn India fund

By Richard Lapper in London

The Quantum Group, managed by international financier Mr George Soros, is to set up a new India fund, underlining recent growth in investor interest in the country.

Mr Purnendu Chatterjee, who already advises Quantum, is assembling a team to manage the fund, which is expected to be capitalised at $1bn.

"With the move by India away from government regulation and towards integration into the world economy, a favourable investment climate has emerged," said Mr Soros in a letter to shareholders of Quantum Industrial Holdings, an existing Quantum fund.

Quantum India will reserve 20 per cent of its assets for so-called "macros trading", in currencies, bonds, stock indices and commodities.

The Quantum Group, based in the Netherlands Antilles, consists of a number of open-end and closed-end investment funds. New York-based Soros Fund Management has been appointed investment adviser.

Securities foray takes toll on Bank of Nova Scotia

By Bernard Simon in Toronto

Bank of Nova Scotia suffered a one-third drop in fiscal 1994 earnings, due entirely to one-time charges earlier in the year stemming mainly from its forays into the trust and securities businesses.

But the bank, which has the most extensive international operations among Canada's big six banks, posted record fourth-quarter earnings. Profits for the year would have been at an all-time high were it not for the restructuring charge.

The strong underlying performance was reflected in a two-cent increase in the quarterly dividend to 31 cents.

Net earnings fell to C$482m (US$349.7m), or C$1.76 a share, in the year to October 31, from C$714m, or C$2.98, a year earlier. Excluding the charges, income totalled C$787m, 10.2 per cent higher than 1993. The charges stemmed mainly from the purchase earlier this year of Montreal Trust, and accelerated amortisation of goodwill at ScotiaMcLeod, the securities firm acquired in 1988.

Fourth-quarter income grew to C$205m, or 81 cents a share, from C$194m, or 80 cents. Return on equity slipped to 14 per cent from 14.9 per cent.

Loan-loss provisions for the year rose to C$567m from C$465m. But there were strong performances in all core businesses, especially retail and commercial banking.

Non-performing loans shrank 25 per cent to C$1.6bn.

Seagram advances with Du Pont help

By Robert Gibbens in Montreal

Seagram, one of the world's top four drinks groups, reported a strong third quarter due to a bigger contribution from Du Pont, the US chemicals group in which it has a 25 per cent stake, and higher spirits and wines income.

Net profit was US$199m, or 53 cents a share, after Du Pont dividends and unremitted earnings. In the 1993 period, Seagram posted a loss of $100m, or 27 cents, after taking its share of Du Pont's special charges.

Spirits and wines produced operating income of $193m, up from $181m a year earlier, and most brands gained market share, said Mr Edgar Bronfman Jr, president. Profits rose in all areas except Latin America, and the US and Asia-Pacific were up sharply.

But Tropicana, the juice business, contributed less because of aggressive competition and the cost of international expansion.

Sales and other income from the drinks business totalled $1.51bn against $1.47bn.

The third quarter includes a $35m charge related to the company's continuing re-engineering program.

Seagram's nine-month net profit was $545m, or $1.46 a share, against $232m, or 62 cents, after the special Du Pont charges in the same 1993 period. The drinks business had sales of $4.17bn against $4.05bn.

Five more groups join General Magic alliance

By Louise Kehoe in San Francisco

General Magic, the US multimedia communications software company, has added five new partners to its technology alliance.

Cable and Wireless of the UK, Northern Telecom of Canada and Mitsubishi, Oki and Sanyo of Japan have each taken a small minority stake in General Magic, bringing the total shareholding of alliance partners to about 50 per cent.

The new partners will license General Magic's software, called Telescript, which enables users of personal computers and personal digital assistants to send "intelligent agents" into a communications network to deliver messages, retrieve information or shop.

General Magic said that the new partnerships were further step toward establishing its technology as a worldwide standard for multimedia communications.

General Magic's existing partners include AT&T, which recently launched its PersonaLink network using General Magic software, as well as Apple Computer, France Telecom, Fujitsu, Motorola, NTT, Philips and Toshiba.

The new General Magic partners plan to develop products and services based on Telescript and General Magic's Magicap user interface software.

Cable & Wireless said it would develop multimedia services for users of its global digital network.

Power Corp of Canada in Asian investment move

By Robert Gibbens

Power Corp of Canada, holding company of Montreal financier Mr Paul Desmarais, has linked up with two international funds to back infrastructure investment in China and the Asia-Pacific area.

The two funds are AIG Asian Infrastructure Fund, a Bermuda limited partnership, and Pacific Infrastructure Development, indirectly controlled by the Singapore government.

Power Corp and the two funds will co-invest in Power Asia Capital (PACL) which in turn will invest in the Asian infrastructure projects. PACL will have initial capital of US$150m, with Power Corp. retaining control and the balance held by the two funds.

Power Corp. will contribute cash to PACL, plus interests in a China electric power development group, industrial property near Shanghai and railcar manufacturing in China.

Merck decides to reverse course

Richard Waters looks at how the US drugs group is integrating Medco

Just months after beginning to merge parts of its operations with those of Medco Containment Services, the pharmacy benefit management group for which it paid $6.6bn last year, Merck has reversed course.

The change in approach is the clearest sign yet that, in spite of the image of stability it projects on the surface, the biggest US drugs maker is going through something of an upheaval. It signals what Mr Raymond Gilmartin, Merck's new chairman and chief executive, calls his "number one priority": to make the Medco acquisition pay.

In the spring of this year, Merck said it would integrate parts of Medco with its own businesses. This echoed the logic advanced by the company for mounting the acquisition in the first instance. Managed care buyers were set to become an ever-more significant force in the US drugs market, forcing Merck to combine with a sales channel as powerful as Medco to retain and, if possible, boost its market share.

That strategy was the brainchild of two men: Mr Roy Vagelos, Merck's charismatic chairman, who retired at the beginning of November, and Mr Martin Wygod, the entrepreneur who created Medco and, until his abrupt departure earlier this year, a man seen as a possible successor to Mr Vagelos. Mr Gilmartin – who until this summer was chairman of a medical supplies company, Beckton Dickinson – has now inherited the job of making the vision work.

The first step has been to run Merck and Medco operations entirely separately. "One of the risks in vertical integration is that you can lose sight of where you make money in the [production and distribution] chain," he said. "We unbundled a little bit as well," he adds, referring to the initial steps at merging operations which have now been reversed.

The change in approach became clear earlier this week, as Mr Gilmartin made his first presentation to analysts since taking over as chairman at the start of November.

Perhaps not coincidentally, this is an approach that is likely to appeal to US regulators, who have begun a review of both Merck and SmithKline Beecham, the Anglo-US drugs group which has also acquired a pharmacy benefit manager. In its first action in this area, the Federal Trade Commission recently required Eli Lilly, the third company to buy a PBM, to establish some operating barriers between its drug-making and PBM businesses. Mr Gilmartin says, though, that the new direction at Merck precedes the FTC's interest, and that anyway the company already satisfies the sort of concerns expressed by the regulators during their review of Lilly.

The decision to run Medco separately will help to highlight in future how successful the acquisition proves. So far, little evidence has emerged. Merck said this week that the number of people in Medco pharmacy plans has risen to 40m, from 33m when the deal was announced. Also, it said Merck's drugs now make up 12 per cent of Medco's sales, up from 10 per cent before the acquisition.

To make the Medco deal pay, Mr Gilmartin hopes to demonstrate that he can boost the earnings of both Merck and the PBM. This represents a subtle change of emphasis from the logic expressed by Mr Vagelos at the time of the deal. The former chairman outlined a plan to grow market share at a time when price pressures were depressing growth for drugmakers generally. Mr Gilmartin, though, says that Merck will defend its profit margins and reassert itself as a growth company.

Much will depend on how well Merck and Medco can work together. In Mr Gilmartin's version of the future, Medco will help Merck to penetrate markets far more effectively than it has in the past. As an example, he takes Vacotec, a treatment for hypertension: in the past three years, this drug has achieved a penetration of only around 25 per cent of its potential market, he said. Broader-ranging clinical studies which establish the efficacy of drugs will lift these levels.

US machine-tool group acquires Krupp Hoesch unit

By Andrew Baxter

Cincinnati Milacron, the big US machine-tool and plastics machinery manufacturer, has announced its biggest European acquisition with the DM150m ($95m) purchase of Krupp Widia from Krupp Hoesch, the German steel and engineering group.

The purchase, for DM113m cash and the assumption of DM37m of debt, marks another expansion of Milacron's sales in industrial consumable products, following its $80m purchase in 1992 of the US company Valenite.

Essen-based Krupp Widia is Europe's second-biggest producer – after Sandvik of Sweden – of metal-cutting tooling, used mainly on machine tools. Its range includes carbide inserts, insert holders, carbide dies and wear parts, and magnets.

The deal comes two months after Sandvik withdrew from the proposed purchase of most of Krupp Widia, after the German cartel office said the Swedish group would gain too strong a position in certain product segments on the German market.

Krupp Widia's sales this year are estimated at about $250m, with about 15 per cent in India and most of the rest in Europe.

The deal will include Widia (India), in which Krupp Widia has a 51 per cent stake.

Milacron said the deal should push its annual revenues to more than $1.5bn next year and add "a solid profit contribution in 1996". Its sales in 1993 were $1bn.

Mr Mike Claybaugh, Milacron's group vice-president for machine tools, said the deal would lift sales of the industrial products business from about one-third to more than 40 per cent of total sales.

This would further reduce the US company's exposure to the more cyclical machine tools and plastics machinery markets.

INTERNATIONAL COMPANIES AND FINANCE

Slow winds of change blow among China's banks

Banks are trying to free themselves from state control but barriers remain and progress has been varied, writes Tony Walker

Mr Wang Qiren, chairman of the Bank of China, uses a colourful metaphor to describe the predicament of Chinese specialised banks in their efforts to commercialise their activities and free themselves from pervasive state control.

"We can't continue to behave like the People's Bank [China's central bank], throwing meat to dogs which can't be retrieved," he says of persistent demands for loans from state enterprises struggling to stay alive.

Twelve months after the Communist party's central committee approved sweeping reforms of the financial sector, including measures to facilitate the transformation of debt-burdened specialised banks into commercial entities, debate among Chinese bankers and their foreign advisers is focusing more sharply on both barriers to reform and opportunities for change.

Mr Gordon Barrass, international adviser with Coopers & Lybrand, the accounting firm, believes real change is stirring among hitherto moribund state financial institutions.

"I have been impressed with the change in culture at some of the specialised banks, but they have got a monumental task," said Mr Barrass, who recently completed a study of Chinese banking.

China's "Big Four" specialised banks account for about 80 per cent of the country's banking business, but because they have been obliged to continue funding ailing state enterprises they have accumulated a huge burden of what the Chinese call "problem" loans. These "non-performing" loans, by western measures, may account for up to 30 per cent of loan portfolios.

An indication of the size of the problem is that of total state bank loans outstanding at the end of 1993 of Yn2,600 trillion, more than 70 per cent was for working capital. The banks are therefore acting as welfare agencies to keep enterprises afloat.

Chinese banks' burden of bad loans renders three of the four specialised banks technically insolvent – the Bank of China being the exception. As Mr Wang puts it: "We really have to pull out the firewood from under the pot, we just can't keep burning any more."

State enterprise reform, including the merger or closure of factories beyond salvaging, is critical to the banks' commercial transformation, but this requires political will. In the present climate of inflation, uncertainty over the transition to a new generation of leaders and incipient worker unrest, the authorities are approaching change with great caution.

The state enterprises' burden – some 45 per cent of China's 11,000 medium-to-large state companies are in the red this year – also makes its virtually impossible to liberalise interest rates.

Chinese officials say any substantial increase would be extremely harmful for state enterprises. Interest on bank deposits is about half the inflation rate.

In spite of the barriers, however, the face of Chinese banking is changing slowly.

A new commercial bank law will, in theory, provide legal protection against banks being obliged to make "policy" loans to failing enterprises; new policy-lending banks will shoulder the burden of funding to state projects; new commercial banks are being licensed and some urban and rural co-operatives are being transformed into banks; and moves are under way to allow foreign banks to engage in local currency business.

Attempts are also being made to strengthen the People's Bank's supervisory role over the banking sector under a new central bank law.

Among its main tasks will be to try to ensure provincial-level bank branches adhere to credit ceilings and abide by regulations laid down by the central authorities. Local branches of the specialised banks have tended to bend to the will of provincial officials rather than follow directives from Beijing.

In tandem with requirements aimed at bringing order to a chaotic system the four specialised banks will have to begin putting their own houses in order. While a start has been made, progress varies markedly from one to another:

● The Industrial and Commercial Bank of China – the country's largest, with 500,000 employees and 50,000 branches – almost certainly faces the most difficult task in "commercialising" its activities. Officials note the bank numbers China's top 500 state-owned-enterprises among its clients, but given the parlous condition of many of these enterprises this is hardly a bonus. The ICBC is said to be facing a "generational split" between younger officials who favour quicker steps towards commercialisation and an older generation who believe the bank should remain close to the ministry of finance and state planning commission.

● The Agricultural Bank of China (500,000 employees and 50,000 branches) is in better shape than the ICBC, partly because of the success of township and village enterprises (TVEs). These are providing a huge volume of deposits. The ABC has also divested responsibilities for policy lending in agriculture to the newly-established Agricultural Development Bank. As an inducement it transferred one-fifth of its assets to the new policy bank. The ABC has also reportedly embarked on a tougher approach by refusing new lending to the more recalcitrant creditors among state enterprises.

● The People's Construction Bank of China (250,000 employees and 25,000 branches) is regarded as being in the best position among the three "domestic" specialised banks to commercialise. The recent establishment of the State Development Bank to handle infrastructure lending for big projects such as the Three Gorges Dam has left the PCB looking for a new role. The bank's recent announcement that it was joining Morgan Stanley to form China's first investment bank is an indication of this. The new institution, to be known as the China International Capital Corporation Limited, will focus on capital raising abroad to satisfy China's huge appetite for infrastructure funds.

● The Bank of China (170,000 employees, 8,000 branches and outlets in China and 474 offices abroad) says it aims to expand its overseas activities. In Hong Kong the Bank of China and its subsidiaries have 24 per cent of the market and it has begun issuing banknotes in preparation for a post-1997 role. The Bank of China is also developing its merchant banking arm.

Mr Wang says the removal of the contraints of a centrally-planned economy is allowing the Bank of China to explore expansion at home and abroad.

"The direction we want to go is to commercialise," he says. "We will enjoy greater independence [under the new commercial bank law] but we will remain a state-owned commercial bank and that means we will have to support state lending priorities in such areas as transportation and energy."

> State enterprise reform, including the merger or closure of factories beyond salvaging, is critical to the banks' commercial transformation. However, this requires political will

China's banking system

The People's Bank of China

Regional commercial banks
- Guangdong Development Bank
- Shenzhen Development Bank
- Pudong Development Bank
- Shenzhen Merchants Bank
- Fujian Industrial Bank
- Yantai Housing Savings Bank

Nationwide commercial banks
- Bank of Communications
- CITIC Industrial Bank
- China Everbright Bank
- Hua Xia Bank

State specialised banks
- The Industrial & Commercial Bank of China
- The Agricultural Bank of China
- Bank of China
- The People's Construction Bank of China

Non-bank financial institutions
- Trust and investment corporations
- Finance companies
- Leasing companies
- Rural credit cooperatives
- Urban credit cooperatives

Source: China Financial Outlook, 1994 People's Bank of China

While attention has focused on the difficulties of reforming China's vast, unwieldy specialised banks, progress is being made in other areas. The Shanghai-based Bank of Communications (BOC), for example, has been preparing to expand its activities, and possibly sell some its stock to private shareholders.

The BOC, re-constituted in 1986 as a joint stock company with the People's Bank and Shanghai Municipality as its main shareholders (it was merged with the People's Bank in 1949), recently created a unified shareholding structure to facilitate the stock sale. Previously its ownership had rested on a web of joint stock companies.

With its stronghold in the fast growing Shanghai and Yangtze Delta area, the BOC's prospects are good. It also has powerful friends at court. Mr Dai Xianglong, a deputy-governor of the People's Bank, is a former head of the BOC.

Other small to medium-sized commercial banks are also beginning to make their presence felt. The China International Trust and Investment Corporation bank (Citic Industrial) ranks sixth among banks in China, and is regarded as having significant growth potential. Everbright Bank, owned by the Everbright Group, one of China's new industrial and trading conglomerates, is in the same category.

Mr Tang Gong Yao, chairman of Everbright Bank, said the bank was keen to expand and had established branches in six cities and representative offices in others. It was involved in loan syndications, leasing deals, securities underwriting and foreign exchange trading. These activities were expanding rapidly.

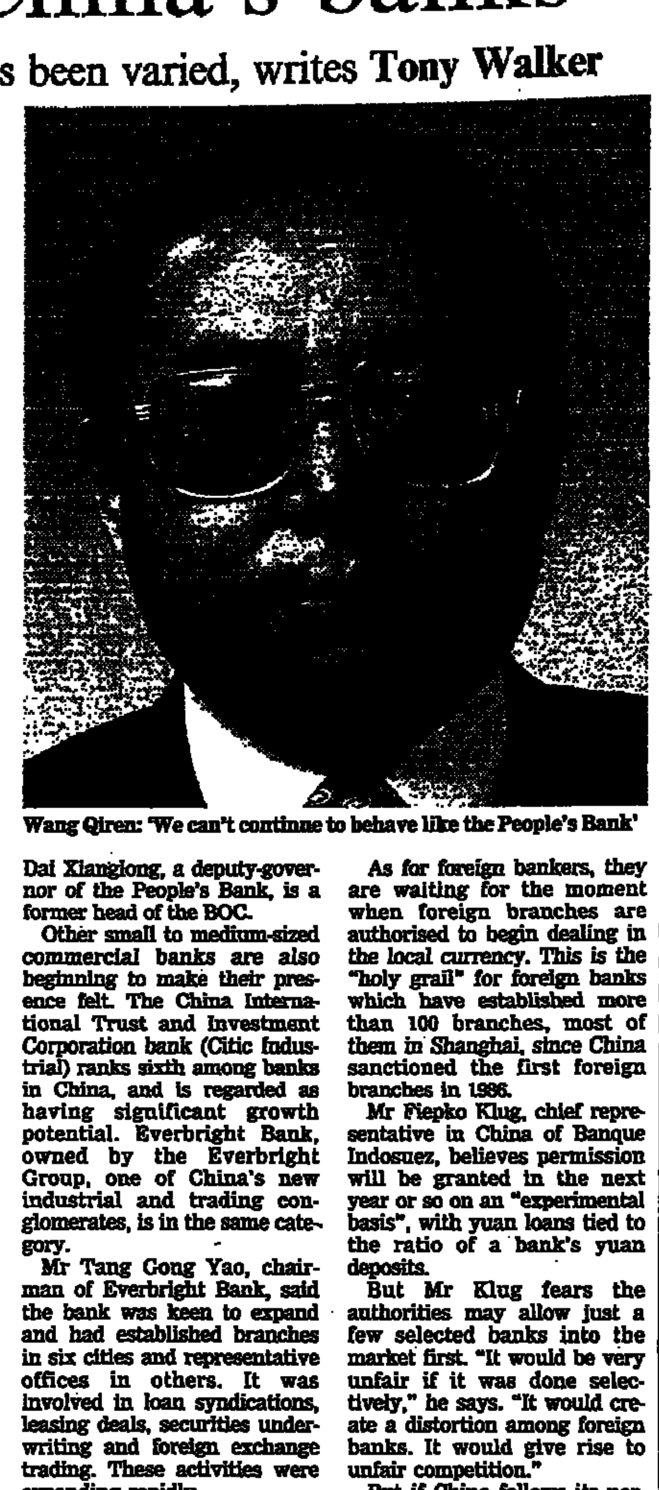
China has also announced the establishment of the first private bank to be permitted since the 1949 revolution. This will be known as the "People's Livelihood Bank" and will cater for private business whose access to credit from state-owned banks is limited.

As for foreign bankers, they are waiting for the moment when foreign branches are authorised to begin dealing in the local currency. This is the "holy grail" for foreign banks which have established more than 100 branches, most of them in Shanghai, since China sanctioned the first foreign branches in 1986.

Mr Fiepko Klug, chief representative in China of Banque Indosuez, believes permission will be granted in the next year or so on an "experimental basis", with yuan loans tied to the ratio of a bank's yuan deposits.

But Mr Klug fears the authorities may allow just a few selected banks into the market first. "It would be very unfair if it was done selectively," he says. "It would create a distortion among foreign banks. It would give rise to unfair competition."

But if China follows its normal pattern of initial gradualism in reforms it may well restrict to a handful the numbers of foreign banks allowed to deal in local currency. Banking reform linked inextricably with state enterprise reform is proving to be a slow and painful process.



Wang Qiren: 'We can't continue to behave like the People's Bank'

Tisa lifts profits 47% after nine months

Net profit at Telefónica Internacional (Tisa), the overseas arm of Telefónica de España, Spain's state-run telecommunications group, rose to Pta15.51bn ($118.9m) in the first nine months, up 47 per cent compared with the same period a year ago, agencies report.

Earnings benefited from a 73 per cent rise in revenue from investments, to Pta28.59bn.

The company said its recently merged Peruvian units, CPT-Peru and Entel-Peru, posted a 24 per cent rise in revenue from a year earlier, with operating profit up 80 per cent, but did not provide details.

Telefónica also cited the sale of a 10 per cent stake in Telefónica Peru, the group which controls a 35 per cent stake in the merged CPT-Peru and Entel-Peru, to each of its Peruvian partners Banco Wiese and Grupo Grana y Montero, for $200m.

It said revenue from its Venezuelan unit CANTV fell slightly.

Profits climbed 10.5 per cent to $193m at its Cia de Teléfonos de Chile unit, while its Telefonica de Argentina unit posted a 26 per cent increase in profit to $392m.

The company also said that Telefónica Internacional had acquired a 20 per cent stake in Telecommunicaciones y Sistemas SA of Argentina, which provides communications services to large clients.

At the end of the third quarter the companies in which the international arm has stakes managed more than 7m telephone lines, while their cellular telephone operations had 271,536 clients and the cable activities 49,768.

Earlier this month Telefónica de España announced a 17 per cent rise in consolidated net profit in the first nine months to Pta86.61bn from Pta73.72bn.

Pre-tax profit climbed 11 per cent to Pta104.65bn from Pta94.68bn.

The growth in net profit was attributable to the declining corporate tax burden, which is currently about 17 per cent of profit.

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Indian power group 46% ahead

By Shiraz Sidhva in New Delhi

Bharat Heavy Electricals (BHEL), the partially-privatised company which is India's leading producer of electricity generation equipment, saw a 46 per cent rise in net profits during the first half of its financial year, scored on record sales.

Net profits in the six months to end-September totalled Rs327.5m ($10.4m) compared with Rs223.3m a year earlier on sales of Rs13.79bn, against Rs10.89bn. At the gross level, profits were Rs1.06bn, up from Rs911.9m.

BHEL said it had secured orders worth Rs25.90bn for the supply of power plant equipment, industrial products and services in the six-month period.

The company said it had won some prestigious orders in spite of the "turbulent market situation", taking its total outstanding orders in excess of Rs80bn.

The orders include a Rs1.14bn export contract for gas turbines from the Electricity Corporation of Saudi Arabia, which BHEL won in the face of competition from European and American multinationals.

The company has also secured a World Bank-funded contract for the supply of shunt reactors to Nigeria as well as some large domestic orders.

A spokesman said the company had shifted its focus to the non-power sector, which accounted for 46 per cent of the company's turnover in 1993-94 compared with 27 per cent in 1986-87.

The state-run company had its shares listed on the Bombay stock exchange after 38 per cent of its equity was sold to employees and select financial institutions.

● Voltas, one of India's leading manufacturers of home appliances and compressors, and part of the Tata group, the country's largest business house, announced an increase of 166 per cent in net profits to Rs94.10m in the six months to September 1994, compared with Rs35.30m for the corresponding period last year. Net revenues advanced to Rs5.55bn from Rs4.58bn.

● India's Century Textiles, part of the Birla group of companies reported a net profit of Rs567.8m for the six months to September 1994, an increase of 6.1 per cent over last year's Rs535.37m. Net sales rose to Rs6.45bn from Rs5.74bn.

Caltex and Ampol may merge operations

By Nikki Tait in Sydney

Pioneer International, the Australian building materials group, announced yesterday that it was in talks with Caltex Australia, whose ultimate joint owners are Chevron and Texaco, the US oil companies, about the possible merger of the groups' petroleum refining and marketing operations.

Pioneer International owns the Ampol petroleum business in Australia.

Speculation that the two groups would combine these operations has circulated for some time. They are the two smallest groups in the five-company retail petroleum market, and competitive pressures in the sector have been strong. If the deal proceeds, the merged operation would be larger than that of Shell Australia, the existing leader in this market.

Both companies said that no agreement had yet been reached and that "discussions are progressing ... to examine the various issues involved". However, news of the talks brought speedy intervention by the Trade Practices Commission, Australia's competition watchdog.

The TPC said it would make preliminary inquiries to ascertain whether the merger would be anti-competitive, and if so, whether public benefit would outweigh this detriment.

Both Caltex Australia and Pioneer's Ampol division have seen profits squeezed recently by falling oil prices, deteriorating refiner margins and retail petrol discounting.

In the year to end-June, Pioneer's petroleum division reported static sales of A$2.83bn, while operating profits fell from A$194.1m to A$143.8m (US$109.2m). However, at the time of those results, the company also predicted a better outcome in 1994-95.

In the six months to end June, Caltex Australia saw profits of A$19.8m after tax, down from A$35.4m, while sales dipped from A$1.71bn to A$1.66bn.

Uphill struggle to drum up interest in property

At first glance it is difficult to see why derivative financial products based on a property index have never captured the attention of investors.

Property is the most illiquid institutional asset class. As a result, investors find it difficult to make tactical asset allocations into property at the right point in the economic cycle.

At the start of this year, for example, institutional investors were eager to buy UK property. Yet many could not find suitable investments.

Property index-linked bonds or futures would, in theory, solve these problems and allow institutions to gain quick exposure to property.

Owning and managing a building is also far more complex than owning an equity or a bond.

Property company shares are are no answer because there is little correlation between the performance of the quoted property sector and the performance of the underlying property market.

Index derivatives might offer smaller investment institutions a way of including property in their investment portfolios without the hassle of owning buildings.

Yet the recent history of property derivatives is not encouraging. In 1991, the London Futures and Options Exchange (Fox) admitted that its property futures contract was manipulated to inflate trading volume.

In practice it seems that investment institutions are not that interested in such products.

The failure of the Fox futures contract was all the more worrying because it was at least based on a widely recognised property index.

DERIVATIVES

The Investment Property Databank index is based on valuation data provided by investment institutions and covers about 75 per cent of all UK investment property.

Many other countries are years away from having a similarly robust index, although IPD is now working with Dutch investors to that end.

However, the experience of Fox suggests that the conservatism of institutions is a big hurdle to the creation of a liquid market even where a reliable property index is available.

A survey of UK institutional investors by Jones Lang Wootton, the surveyors, found that only 22 per cent were actively interested in new innovations in property derivatives.

A further 20 per cent said they would use property derivatives, but only once the market has become established.

Disappointingly, 43 per cent of the respondents would only participate selectively even in an established market, and 15 per cent were generally not interested at all in such instruments.

The findings show why drumming up interest in property derivatives has been an uphill struggle, even in countries such as the UK with a reliable index.

Earlier this year, Barclays Bank took the initiative and issued property index certificates (Pics) – essentially bonds linked to the IPD index. The instruments helped the bank hedge a portion of its own property portfolio.

Although the issue came after the flow of institutional funds into property had subsided, the bank managed to sell £150m of Pics.

The JLW survey found that almost half of the investment institutions which decided not to buy Pics declined because they expected to beat the IPD index with their own holdings of direct property, whereas the instrument offered a return in line with the index.

This finding underlines that the "stock-picking" attitude among property investors is very strong. Since no two properties are alike, it is perhaps not surprising that most investors have relied on their stock selection skills. The modest success of PICs offered a glimmer of hope to supporters of property derivatives, but it may take a wider cultural change before a truly liquid market can be created.

Simon London

South African life group raises payout

By Mark Suzman in Johannesburg

Metropolitan Life, the South African life assurer controlled by the recently-listed black investment group New Africa Investments, saw total income advance by 20 per cent to R1.67bn ($472.3m) in the year to September and is increasing its total dividend.

The improvement resulted from a combination of a rise in investment income, 15 per cent higher at R452.5m, and a 22 per cent improvement in premium income to R1.22bn.

Attributable income also rose by 22 per cent to R86.5m, up from R70.8m a year ago.

The directors have declared a final dividend of 53.5 cents a share, which raises the total dividend for the year to 83 cents, up 24 per cent from the previous year's 67 cents.

Total assets increased by 29 per cent to R7.38bn from R5.73bn.

Metlife has also published, for the first time, a statement of actuarial values of assets and liabilities, which show a surplus of R1.86bn, up 36 per cent from last year.

Mr Marius Smith, managing director, said the company remained focused on recurring premium business, which constitutes close to 92 per cent of the total, but he added that he expected an increase in new business over the coming year.

Tokyo broker punishes staff

By Gerard Baker in Tokyo

Tokyo Securities, a medium-sized stockbroker, announced yesterday that it had punished some of its most senior executives over a Y32bn ($324m) extraordinary loss incurred in unauthorised trading of US Treasury bonds and forward foreign exchange contracts.

The broker said that a managing director, Mr Yukio Sugimura, would retire early, while one of his colleagues, Mr Masaru Fujita, would be demoted to director. Similar punishment had been dealt to other responsible personnel, a company spokesman said. The unnamed individual directly responsible for the losses had already been disciplined.

In addition, all members of the board of directors are to have their pay cut by between 5 per cent and 30 per cent for an unspecified period starting from this month.

The company reported last month that it had suffered a special loss of Y32bn, a sum equivalent to almost its entire annual operating revenues, and representing more than one-third of its shareholders' equity.

The cost to the company is reflected in its forecast for the current financial year to the end of next March. It expects to report an after-tax loss of Y32.5bn, compared with a profit of Y7.6bn last year.

CRA closes Port Kembla refinery

By Nikki Tait

CRA, the Australian mining group, and its partners in the Southern Copper consortium, announced yesterday that they had decided to close the refinery and smelter at Port Kembla, in New South Wales.

The move was foreshadowed a month ago, when CRA, which holds a 60 per cent interest in the project, said it would not support an upgrade of the facility unless a new partner was brought in to reduce "substantially" its stake. The other two existing partners in Southern Copper are Japanese – Furukawa with 30 per cent, and Nissho Iwai with 10 per cent.

The plant has seen strike action recently, with employees protesting at job cuts. But CRA said the closure decision was based on consistently poor financial performance since 1991, a bleak short-term outlook, and the reluctance of shareholders to support further capital expenditure needed for environmental upgrading.

It added that during a period of care and maintenance, efforts to find a new equity partner would continue. The plant employs around 440 people.

Way clear for Australian float

By Nikki Tait

The way was cleared yesterday for the sale of Aerospace Technologies of Australia, the aircraft component manufacturer, to the private sector after legislation was passed in the federal parliament in Canberra.

The company, which was born out of the former Government Aircraft Factories and constituted as a government business enterprise in 1986, is currently wholly-owned by the federal government. Its main business is as a components supplier to the big aircraft manufacturers, like Boeing or McDonnell Douglas, although it also has a service role in the local aviation market.

The potential privatisation was announced a year ago, and expressions of interest closed this month. The government has said it would prefer to sell ATA as a whole, but a piecemeal approach may be considered. It is hoped a deal can be finalised early next year.

In 1992-93, ATA notched up exports of over A$130m.

Kuala Lumpur SE alters corporate reporting rules

The Kuala Lumpur Stock Exchange has amended its corporate reporting rules so that all companies listed on the exchange's main board have to announce their annual results three months from their financial year-end instead of six months currently, Reuter reports from Kuala Lumpur.

The exchange said in a statement that this was to allow investors to make better investment decisions and enhance transparency. Companies which do not provide their results within the specified time may be suspended until the results are ready for release, the exchange said.

The KLSE also said it would make it easier for companies to transfer from the exchange's second board to the main board by relaxing one requirement. It said it would remove the need for companies to issue detailed introductory circulars, which are a document second-board companies have to release to inform the public of their transition to the main board.

The changes take effect from the year ending December 31 1995.

Cadbury India bounces back to black at midway

Cadbury India, the Bombay-based associate of Cadbury Schweppes, the UK-based international food and drinks group, reported a net profit of Rs70.41m ($2.24m) in the first six months to end-September, compared with a loss of Rs2.88m a year earlier, writes Shiraz Sidhva.

The company, which used more aggressive marketing and advertising strategies and improved its financial management, reported net sales of Rs948.86m, compared with Rs829.79m last year.

CONTRACTS & TENDERS

LEGAL NOTICES

No. 006049 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF HANDLING ANALYSIS LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16 November 1994 confirming the cancellation of the Share Premium Account of the above-named Company of £2,975,000 was registered by the Registrar of Companies on 17 November 1994

DATED this 25th day of November 1994

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA
Ref: R.L1.6A/1894
Solicitors for the above-named Company

No. 006049 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF HANDLING ANALYSIS LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16 November 1994 confirming the cancellation of the Share Premium Account of the above-named Company of £2,975,000 was registered by the Registrar of Companies on 17 November 1994.

DATED this 25th day of November 1994.

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA
Ref: R.L1.6A/1894
Solicitors for the above-named Company

No. 006050 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF LEX COMMERCIALS LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16 November 1994 confirming the reduction of the Share Premium Account of the above-named Company by £1,946,000 was registered by the Registrar of Companies on 17 November 1994.

DATED this 25th day of November 1994

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA
Ref R.L1.6A/1951
Solicitors for the above named Company

COMPANY NOTICES

Continental (Bermuda) Limited

US $ 250,000,000 Floating Rate Notes due 2006 Guaranteed by Hungarian Foreign Trade Bank Ltd.

Notice is hereby given that for the Interest Period 30 November 94 to 28 February 1995, a period of 90 days, the Rate of Interest will be 6.25 percent per annum. The Interest Amount payable on the Interest Payment Date 28 February 1995 will be US $ 3,906.25 for each Note of US $ 250,000.

Agent Bank
Dean Witter Capital Markets International

Notice of Interest Rates

To the Holders of

The United Mexican States

Collateralized Floating Rate Bonds Due 2019

NOTICE IS HEREBY GIVEN that the interest rates covering the interest period from December 1, 1994 to June 1, 1995 are detailed below:

Series Designation	Rate	Interest Amount	Interest Payment Date
USD Discount Series D	7.25 Pct. P.A.	USD 36.65 Per USD 1,000	June 1, 1995
FFF Discount Series	6 625 Pct. P.A.	FFF 187.47 Per FFF 5,000	June 1, 1995

December 1, 1994 — CITIBANK, N.A., Agent

SOCIETE GENERALE
USD 500.000.000
UNDATED
SUBORDINATED
FLOATING RATE NOTES

For the period November 30, 1994 to May 31, 1995 the new rate has been fixed at 6,3875 % P.A.

Next payment date : May 31, 1995

Coupon nr : 17

Amount : USD 322,92 for the denomination of USD 10 000

USD 3229,24 for the denomination of USD 100 000

THE PRINCIPAL PAYING AGENT SOGENAL SOCIETE GENERALE GROUP
15, Av. E. Reuter - LUXEMBOURG

EDF

Electricité de France

U.S. $150,000,000

Floating Rate Notes due 2002

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the six month period ending 31st May, 1995 has been fixed at 6.0625% per annum. The interest accruing for such six month period will be U.S. $30.65 per U.S. $1,000 Bearer Note, and U.S. $306.49 per U.S. $10,000 Bearer Note and U.S. $3,064.93 per U.S. $100,000 Bearer Note on 31st May, 1995 against presentation of Coupon No. 5.

Union Bank of Switzerland
London Branch Agent Bank

28th November, 1994

INTERNATIONAL CAPITAL MARKETS

PepsiCo returns after six years amid flood of issuance

By Richard Lapper

A flood of eurobonds lit up dealers' screens yesterday with issuance in a variety of currencies, maturities and structures.

Activity in the short-dated dollar sector was especially strong, with a highlight being the return of PepsiCo to the market after an absence of more than six years.

Strong demand from Europe for short-dated US dollar paper after recent rises in interest rates, perceptions of a strengthening dollar, as well as end-of-year concerns to complete funding programmes and what one syndicate manager termed "league table-itis" were among explanations offered.

In addition, with further rises in short-term US rates expected, a number of dealers pointed to improved arbitrage opportunities for issuers seeking to swap liabilities from fixed-rate into floating-rate dollars.

"Fundamentally, investors think it's a good time to buy short dollars and people in the swap markets fear rates will go higher," said Mr Denis Kelleher, syndicate manager with Daiwa Europe.

INTERNATIONAL BONDS

"The most important thing is that absolute dollar rates are much higher than they were a couple of months ago," he added.

"What people have realised is that US rates are going to go up. Short-dated dollar deals are de rigeur at the moment," said another trader.

PepsiCo's issue of $250m of three-year bonds – which carried a spread over the equivalent US Treasury of 24 basis points – followed an issue by Walt Disney earlier this week and is to some extent part of a trend as the credit quality of US corporates improves.

Syndicate managers at Morgan Stanley, which brought the issue, said US companies could reduce borrowing costs by between 5 and 10 basis points by turning to the euromarkets and many were keen to diversify their borrowing sources.

The issue was the first of a new $2bn euro medium-term note (EMTN) programme for PepsiCo.

Another large deal in the dollar sector was a $350m three-year issue by Carco Auto Loan Master Trust, a financing subsidiary of Chrysler, the US motor company. The issue, backed by loans issued by motor dealers, carried a spread of 37 basis points over the equivalent US Treasury, and was brought by CSFB and Salomon Brothers. The yield spread widened marginally when the bonds were were freed to trade.

Swiss Bank Corporation brought another asset-backed transaction – a $150m floating-rate note issued by Crystal Castle Euro-Finance, a special purpose company which will purchase trade receivables from Italy's Cremonini Group, an integrated food company.

CEZ Finance, the Czech state-owned electricity company, made its expected debut with a $150m five-year issue. The deal – the first by an east European corporate – met a positive response, with the yield spread over the equivalent US Treasury tightening from 110 to 108 when the bonds were freed to trade.

J.P. Morgan, which led the deal, said spreads on two other outstanding Czech issues – by the Czech National Bank and the City of Prague – have both narrowed since their launch.

Distribution of CEZ's paper, which is rated BBB- with a positive outlook, was broadly-based with 35 per cent placed in Asia, 15 per cent in the US and 50 per cent in Europe.

Elsewhere, both Ireland and Argentina tapped the yen sector. Merrill Lynch International brought a 10-year Y30bn issue for Ireland and Daiwa Europe arranged a Y12.5bn five-year issue for Argentina.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
CALMT Series 94-3(a,s)	350	8.125	99.828R	Nov.1997	0.1875R	+37(7¾%-97)	CSFB/ Salomon Brothers
PepsiCo	250	8.00	99.888R	Dec.1997	0.225R	+24(7¾%-97)	Morgan Stanley & Co.Intl.
Banque Nationale de Paris	200	7.75	99.90R	Jan.1997	0.1875R	+24(7¼%-96)	BNP Capital Markets
Südwestdeutsche LB Cap.Mkts.	200	7.625	99.75R	Dec.1996	0.125R	+15(7¼%-96)	Lehman Brothers Intl.
CEZ Finance	150	8.875#	99.78R	Dec.1999	0.625R	+110(7¾%-99)	JP Morgan Securities
Crystal Castle Euro-Finance‡	150	(b)	99.81R	Dec.1999	0.45R	-	Swiss Bank Corp.
West LB Europa§	100	7.625	99.75R	Dec.1996	0.15R	+16(7¼%-96)	Credit Lyonnais Euro-Secs.
Distrib. de Gas Pampeana‡	50	(c)	99.55R	Dec.1996	0.875R	-	JP Morgan Securities
Banco Braseg	50	11.25#	99.253R	Dec.1997	1.00R	+425(7¾%-97)	West Merchant Bank
YEN							
Republic or Ireland★	30bn	4.80	100.075R	Jan.2005	0.325R	-	Merrill Lynch International
Republic of Argentina★	12.5bn	7.10	99.70	Dec.1999	undisd.	-	Daiwa Europe
STERLING							
DSL Bank§	100	8.00	99.816R	Dec.1996	0.125R	+20(10%-96)	Barclays de Zoete Wedd
D-MARKS							
General Electric Capital.Corp.	250	7.00	100.125R	Dec.1998	0.225R	+10(5%-98)	JP Morgan
Südwest. LB Cap.Mkts.(d)	100	6.875	99.78R	Oct.1998	0.225R	+8(5¾%-98)	Morgan Stanley Frankfurt
FRENCH FRANCS							
Bayerische Hypobank	1bn	7.00	99.85R	Dec.1996	0.15R	+20(8½%-96)	CCF
ITALIAN LIRE							
European Investment Bank‡	240bn	(e)	100.30	Dec.1999	0.30	-	CS First Boston
CANADIAN DOLLARS							
Ville de Montreal‡	200	(f)	99.77R	Jan.2000	0.15R	-	Merrill Lynch International
SWISS FRANCS							
European Sovereign Invs.(s)★	175	5.75	102.60	Nov.1999	1.60	-	Credit Suisse
General Electric Capl.Corp.(g)	100	5.375	102.50	Dec.1997	1.50	-	Merrill Lynch Capl.Mkts.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Carco Auto Loan Master Trust. b) 3-mth Libor +30bp. c) 3-mth Libor +300bp. d) Fungible with DM300m. Plus 62 days accrued. e) 3-mth Libor -25bp. f) 3-mth BA's +8bp. g) Fungible with SFr125m. Plus 39 days accrued. § Long 1st coupon. s) Short 1st coupon.

CFTC to take tough stance on fraud

By Laurie Morse in Chicago

The Commodity Futures Trading Commission will insist all US futures exchanges prove within the next 45 days that they can meet fraud detection guidelines. It will also press ahead with plans to comply with more stringent trade-tracking requirements by an October 1995 deadline set by Congress.

In a report to Congress released on Tuesday, the agency, which regulates US futures exchanges, took a tough stand. It said that while a number of exchanges, including the Chicago Board of Trade and the Chicago Mercantile Exchange, claimed they could meet existing trade-tracking rules, CFTC inspections showed that they fell short of requirements.

Evidence of trading abuses in Chicago trading pits uncovered by a Federal criminal investigation in 1989 prompted Congress to require better trade auditing procedures. This year, exchanges must be able to track trades within one minute of execution with 90 per cent accuracy.

Although the Chicago exchanges have upgraded trade-tracking procedures since 1989, most of their efforts at audit trail improvements have focused on developing an expensive high-tech trading card which they say is still four years from being operational.

Mrs Mary Schapiro, who chairs the CFTC, told Congress her agency would not tolerate the delay, and would require exchanges to use alternative procedures to upgrade audit trail standards to 1995 levels while developing the electronic trading card.

Roadshows for Ammeberg offer start this week

Roadshows started this week for the international offering of shares in Ammeberg, the Swedish mining group, writes Martin Brice.

The offering is led by Morgan Stanley. Co-leads are BZW, Goldman Sachs and Enskilda, which is also the lead for the 30 per cent of the offering for domestic investors.

The roadshow started in Stockholm on Monday, in Frankfurt and Zurich on Tuesday, and London yesterday and today. It moves on to Geneva and Rotterdam on Friday, and Scotland on Monday, before going to the US.

The offering values the whole company at around SKr1.26bn.

Yield curve flattens as investors shift into longer gilts

By Conner Middelmann and Martin Brice in London and Lisa Bransten in New York

The UK yield curve flattened yesterday as the shorter maturities came under pressure from interest-rate jitters and investors shifted into longer maturities.

Upbeat economic forecasts by Mr Kenneth Clarke, chancellor of the exchequer, in his Budget speech on Tuesday revived worries about an earlier-than-expected rise in UK base rates.

"Although people were expecting an upward revision in growth forecasts, it has highlighted the pressure which will be on the government to accept any recommendation from the Bank of England to put rates up," said Mr Robert Thomas, gilt strategist at NatWest Markets.

This fuelled "a growing fear in the market that Clarke and [Bank of England governor Mr Eddie] George will agree to put rates up when they meet next week", said a dealer. He reported significant selling of three, four and five-year paper and some buying at 10-years and beyond.

The longer maturities fared better than the short end, despite – or some said because of – the Bank's announcement that it plans to auction £2bn of 8.5 per cent gilts due 2005 next Wednesday. "The market was pleasantly surprised by the fact that it was not more than £2bn," said Mr Thomas.

The December long gilt futures contract rose by 5/16 point to 103 1/16.

■ US Treasury prices fluctuated yesterday morning in reaction to differing signals about the extent of inflationary pressures in the economy.

By midday the benchmark 30-year government bond was up 3/8 at 94 1/16, yielding 8.020 per cent. At the short end, the two-year note was down 1/16 at 99 23/32, yielding 7.421 per cent.

GOVERNMENT BONDS

Early in the morning the Commerce Department announced it was revising its estimate of third-quarter gross domestic product upwards to 3.9 per cent from 3.4 per cent, which sent bond prices down modestly.

Later in the morning the market reversed course after capacity utilisation figures for October were revised downward. The original figure showing 84.9 per cent of the economy's capital was being used in the production of goods was adjusted to 84.6 per cent, which was closer to economists' expectations.

Market reaction was mixed to a report from Chicago purchasing agents that business activity rose 67.4 per cent in November, up from 64.3 per cent in October. Although there was a sharp increase in the "prices paid" component of the report from 72.5 per cent to 79.4 per cent, the investor reaction was mixed. While some sold because of the portent of inflation, others stepped in to take advantage of rising yields.

The Chicago data are closely watched by investors because of the indication it provides about key figures due out today from the National Association of Purchasing Management.

■ German government bonds were lifted by a combination of factors yesterday and the December bund futures contract on Liffe ended at 91.28, up 0.42.

Bunds started the day cautiously, and in the afternoon firmness in the US Treasury market fed into bunds.

Ms Alison Cottrell at Kidder Peabody said that remarks by Mr Helmut Schieber, Bundesbank director, on interest rates, were well received by the market.

Mr Schieber was reported to have said that economic conditions in Germany made it harder to foresee a situation where German interest rates could rise than one in which they could fall.

His remarks combined with some short covering and the cancellation of two issues of bonds by the Treuhand in December, led to the rise in bunds.

■ Italian government bonds drifted in limbo late yesterday as Mr Silvio Berlusconi, prime minister, was meeting trade unions to discuss the budget and pension reform. The yield on the benchmark 10-year Italian government bond was largely unchanged, drifting up from 11.99 per cent to 12.01 per cent as the Italian market underperformed Germany, which rose.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	90.9900	−0.740	10.49	10.71	10.53
Belgium		7.750	10/04	96.6600	+0.200	8.25	8.34	8.49
Canada *		6.500	06/04	83.4000	+0.150	9.16	9.18	9.17
Denmark		7.000	12/04	89.4700	+0.300	8.61	8.72	8.99
France	BTAN	8.000	05/98	102.1250	+0.250	7.24	7.47	7.55
	OAT	6.750	10/04	92.3200	+0.460	7.89	8.11	8.28
Germany Bund		7.500	11/04	101.1800	+0.370	7.33	7.47	7.60
Italy		8.500	08/04	81.9000	−0.100	11.67†	11.83	11.73
Japan	No 119	4.800	06/99	103.2620	−0.040	3.96	4.04	4.08
	No 164	4.100	12/03	96.3430	+0.090	4.68	4.67	4.73
Netherlands		7.250	10/04	98.6200	+0.280	7.45	7.53	7.60
Spain		8.000	05/04	82.0900	+0.120	11.13	11.16	11.25
UK Gilts		6.000	08/99	90–31	-	8.35	8.35	8.55
		6.750	11/04	88–21	+7/32	8.46	8.50	8.64
		9.000	10/08	104–17	+9/32	8.44	8.51	8.61
US Treasury *		7.875	11/04	99–19	+9/32	7.93	8.00	7.89
		7.500	11/24	94–03	+11/32	8.02	8.11	8.05
ECU (French Govt)		6.000	04/04	85.2700	+0.470	8.31	8.51	8.68

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	8½	One month	5.51	Two year	7.42
Broker loan rate	6½	Two month	5.53	Three year	7.66
Fed.funds	5¾	Three month	5.74	Five year	7.83
Fed.funds at intervention	-	Six month	6.24	10-year	7.92
		One year	6.86	30-year	8.02

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	112.46	112.94	+0.52	112.96	112.22	169,495	117,912
Mar	111.64	112.12	+0.52	112.14	111.42	16,823	40,396
Jun	110.74	111.22	+0.52	110.84	110.58	371	3,273

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Mar	PUTS Jun
110	-	2.75	-	0.17	0.64	1.49
111	1.51	2.06	1.98	0.39	0.96	-
112	0.86	1.45	-	0.74	-	-
113	0.41	0.99	-	1.29	-	-
114	0.15	0.59	-	-	-	-

Est. vol. total, Calls 15,861 Puts 16,810. Previous day's open int., Calls 124,987 Puts 109,643.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90.93	91.22	+0.36	91.30	90.68	164719	115708
Mar	90.20	90.49	+0.35	90.55	89.98	20055	88654
Jun		89.74	+0.35			0	227

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
9000	0.85	1.16	1.38	1.36	0.36	0.67	0.87	1.64
9050	0.56	0.88	1.08	1.16	0.57	0.89	1.06	1.92
9100	0.34	0.65	0.84	0.98	0.85	1.16	1.35	2.22

Est. vol. total, Calls 10481 Puts 4810. Previous day's open int., Calls 133256 Puts 92866

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.74	101.60	-	101.85	101.26	40067	38301
Mar	100.70	100.47	-0.06	100.80	100.25	8865	21091
Jun		99.34	-0.16			0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
10000	2.22	1.05	1.75	1.71
10050	1.95	0.86	1.98	2.02
10100	1.68	0.69	2.21	2.35

Est. vol. total, Calls 270 Puts 395. Previous day's open int., Calls 11257 Puts 8960

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.58	87.66	+0.19	87.67	87.45	27,533	74,704
Mar	86.80	86.96	+0.19	87.00	86.76	1,266	7,234

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102-20	103-03	+0-11	103-07	102-13	65651	64376
Mar	101-27	102-11	+0-12	102-14	101-21	23168	74609
Jun		101-11	+0-12			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
102	1-56	2-43	1-34	3-21
103	1-23	2-15	2-01	3-57
104	0-60	1-56	2-38	4-34

Est. vol. total, Calls 1811 Puts 8871. Previous day's open int., Calls 12951 Puts 15799

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	81.82	82.34	+0.44	82.34	81.74	4,846	7,593

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	97-31	98-07	+0-06	98-08	97-26	131,851	285,082
Mar	97-13	97-18	+0-05	97-19	97-06	428,080	143,088
Jun	97-00	97-01	-	97-01	96-23	534	12,174

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	108.05			108.75	108.60	947	0
Mar	107.95			108.03	107.90	3147	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Nov 30	Day's change %	Tue Nov 29	Accrued interest	xd adj. ytd		Low coupon yield Nov 30	Low Nov 29	Low Yr. ago	Medium coupon yield Nov 30	Medium Nov 29	Medium Yr. ago	High coupon yield Nov 30	High Nov 29	High Yr. ago
1 Up to 5 years (24)	120.39	−0.10	120.51	2.27	9.83	5 yrs	8.41	8.39	5.86	8.46	8.44	6.13	8.62	8.59	6.28
2 5-15 years (22)	141.04	—	141.04	2.24	11.49	15 yrs	8.36	8.37	6.64	8.48	8.48	6.75	8.73	8.74	6.95
3 Over 15 years (8)	158.67	+0.20	158.36	3.15	10.87	20 yrs	8.33	8.35	6.74	8.49	8.48	6.77	8.65	8.67	6.98
4 Irredeemables (6)	179.14	+0.09	178.98	1.23	13.47	Irred.†	8.41	8.42	6.66						
5 All stocks (60)	138.18	—	138.17	2.41	10.93										

Index-linked							Inflation 5% Nov 30	Nov 29	Yr. ago	Inflation 10% Nov 30	Nov 29	Yr. ago
6 Up to 5 years (2)	187.11	-0.10	187.30	0.82	5.07	Up to 5 yrs	3.88	3.83	2.15	2.68	2.62	1.31
7 Over 5 years (11)	174.20	-0.33	174.78	1.27	4.36	Over 5 yrs	3.86	3.83	3.04	3.67	3.64	2.86
8 All stocks (13)	174.65	-0.31	175.19	1.22	4.41							

Debentures and Loans						5 year yield Nov 30	Nov 29	Yr. ago	15 year yield Nov 30	Nov 29	Yr. ago	25 year yield Nov 30	Nov 29	Yr. ago
9 Debs & Loans (77)	129.28	+0.37	128.80	2.10	10.47	9.48	9.48	7.46	9.44	9.48	7.77	9.40	9.44	7.90

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 30	Nov 29	Nov 28	Nov 25	Nov 24	Yr ago	High*	Low*
Govt. Secs. (UK)	92.06	92.00	92.46	92.09	92.33	105.14	107.04	89.54
Fixed Interest	109.14	109.14	108.90	108.89	108.95	127.22	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 29	Nov 28	Nov 25	Nov 24	Nov 23
Gilt Edged bargains	144.5	150.1	150.7	134.8	140.4
5-day average	144.1	140.5	141.5	140.4	147.8

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 30

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	87⅞	88⅛		8.56
Alberta Province 7⅞ 98	1000	98¼	98½		8.16
Austria 8½ 00	400	101⅜	101⅝	+⅛	8.15
Bank Ned Gemeenten 7 99	1000	95⅝	95⅞		8.14
United Kingdom 7¼ 97	5500	101⅛	101¼	-⅛	6.68
Volkswagen Intl Fin 7 03	1000	94½	95	-⅛	7.90
World Bank 0 15	2000	20⅞	21⅝		7.72
World Bank 5⅞ 03	3000	89⅞	89½		7.55
World Bank 8¼ 00	1250	110⅛	112⅞	-¼	6.45
Abbey Natl Treasury 8 03 £	1000	92½	92⅞	-⅛	9.32
Alliance Leics 11⅜ 97 £	100	105⅞	106¼	-⅛	8.95
British Land 8⅞ 23 £	150	88¼	89¼	-⅛	10.33
Denmark 6¾ 98 £	800	93⅞	94⅞	-⅛	8.72
EIB 10 97 £	637	103⅜	103¾	-⅛	8.21
[illegible]					

(Remaining entries of the FT/ISMA International Bond Service — U.S. dollar, Swiss franc, yen, other, Deutsche Mark straights, floating rate notes and convertible bonds — [illegible])

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]						

(Shorts (Lives up to Five Years), Five to Fifteen Years, Over Fifteen Years, Undated, Index-Linked and Other Fixed Interest listings — [illegible])

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. ‡ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

هكذا من الأصل

CFTC to take tough stance on fraud

Concert is a mark of Concert Communications Company. BT is a registered trademark of British Telecommunications, plc. MCI is a registered service mark of MCI Communications Corporation.

Two operations to be kept separate in case final go-ahead not given

Thos Cook cheque buy proceeds

By Alison Smith

Mr Michael Heseltine, the trade and industry secretary, has allowed Thomas Cook Group, the travel company, to proceed on a temporary and conditional basis with its acquisition of Barclays Bank's travellers' cheques business.

The deal was blocked last month just before it was due to be completed, when Mr Heseltine referred it to the Monopolies and Mergers Commission on the advice of Sir Bryan Carsberg, director-general of fair trading.

Thomas Cook said yesterday that the acquisition had now been completed, subject to an order from the department of trade and industry saying that the core businesses must be kept separate.

This means that Thomas Cook must keep its own data and processing systems distinct from those it is acquiring from Interpayment Services.

This is to ensure ISL could still be disentangled if the MMC recommended, and Mr Heseltine agreed, that the deal should not be allowed to go ahead.

Thomas Cook is already the world's largest issuer of Mastercard travellers' cheques, and the deal makes it the biggest issuer of Visa travellers' cheques as well.

It is increasing its share of the \$54bn (£33bn) travellers cheque market from 17 to 30 per cent. The market is led by American Express with 44 per cent.

When the deal was announced in August, Thomas Cook said that part of its rationale was the use of the same distribution and processing facilities.

But Mr Graham Rider, Thomas Cook's managing director of financial services, said yesterday that the first stage of bringing the operations together simply involved putting them in the same location.

Integrating the systems themselves was not due to begin until next autumn. The DTI decision on the MMC recommendation is expected in spring.

The DTI took the unusual step of issuing the new order after joint representations from Thomas Cook and Barclays. They argued that putting the deal on hold until after the MMC report would undermine the case for proceeding at all, with the risk that the business would have to be closed down.

ISL is said to be running at a loss of about £20m a year.

Thomas Cook intends to operate the Interpayment Visa brand separately. Mr Rider said that though the deal would be less attractive if the two processing systems had to remain separate indefinitely, it would not be a "deal-breaker" since most of the synergies arose from co-locating the operations.

Kleinwort Benson buys 20% of Chicago fund manager

By Simon London

Kleinwort Benson, the investment banking and fund management group, is taking a 20 per cent stake in LaSalle Partners, the Chicago-based property fund manager.

Kleinwort's existing joint venture in real estate fund management, 50 per cent owned by Alex Brown, the US investment bank, will be merged with LaSalle to create the third largest property fund manager in the US.

The group is paying \$20.8m (£12.6m) for its stake in LaSalle and \$10.6m to buy out Alex Brown from the joint venture.

Mr Gary Thomas, finance director of Kleinwort Benson investment management, said: "Our joint venture with Alex Brown was a good investment, but it is clear that the business was too small to provide the high level of service demanded by investors over a long period of time. We had to decide whether to invest in that business or strike a deal with someone else."

The joint venture with Alex Brown had \$3bn of property under management, against La Salle's \$9bn.

Kleinwort Benson has the right to maintain its holding in LaSalle at 20 per cent by acquiring additional equity in the company up to a maximum additional cost of \$12.2m.

Mr Thomas added that the group has been expanding its US fund management operations including Fenchurch Capital Management and Kleinwort Benson Investment Management Americas.

Referral for SB Holdings buy

By Charles Batchelor, Transport Correspondent

The Monopolies and Mergers Commission is to investigate the acquisition of Kelvin Central Buses, a Glasgow-based operator, by SB Holdings, the holding company of Strathclyde Buses.

Mr Jonathan Evans, corporate affairs minister, said yesterday that the acquisition raised concerns about competition in the bus market in and around Glasgow.

The Monopolies Commission is required to make its report by March 8. The referral decision was taken on the advice of Sir Bryan Carsberg, the director general of fair trading.

Kelvin Central was sold to its management by the Scottish Transport Group for £1 in 1990 and bought by SB Holdings for £11.1m in September.

A 20 per cent stake in SB Holdings was acquired by Stagecoach, the largest UK bus group, on November 15, for £8.8m. Stagecoach said it might acquire a larger stake in SB Holdings at a later stage, though the Office of Fair Trading has said it would look into the deal.

SB Holdings was also acquired by its managers from Strathclyde Council in 1993. It has annual turnover of £86m, owns 1,330 vehicles and employs 3,700 staff.

Buzzacott acts to meet charity rules

By Norma Cohen, Investments Correspondent

Buzzacott Investment Management, a firm of chartered accountants which also manages funds for charities, has turned over £60m of its clients' monies to Mercury Asset Management, largely in response to new rules on charity investment.

Mr Brian Regan, a senior partner of Buzzacott, said: "This is a natural development in view of the new audit requirements for charities which are expected to come into force towards the end of 1995.

Buzzacott said it would continue to act as financial adviser for its auditing clients and continue its performance monitoring function of client portfolios.

From next year, auditors to charities face tougher requirements under the Charities Act of 1993. A further statement of recommended practice from the Accounting Standards Board says that those who audit the investment portfolio of a charity should not also be responsible for making investment decisions.

Bondholder support for overhaul of Heron

By Simon Davies

The reconstruction of Heron International under US entrepreneur Steven Green became a virtual formality yesterday, when bondholders voted in favour of the buy-out of Gerald Ronson's collapsed property empire.

A number of conditions still need to be met before the offer becomes unconditional, but the bondholder meetings were the main hurdle. Mr Green's offer won 99 per cent support from both classes of bonds.

A spokesman for Heron said: "We are very pleased with the result, and we are confident that we will reach a successful conclusion."

Mr Green's HNV Acquisition has yet to receive approval from the Head Office Banks.

However, they have given verbal commitments to support the deal and the delay in approval is a "technical hitch" at one of the banks.

A meeting was to be held in the US yesterday by the Resolution Trust Corporation to consider a proposed settlement concerning the collapsed financial services group Pima – another condition of the offer.

However, the bond meetings demonstrated overwhelming support for the HNVA proposals. Around 70 per cent of senior bondholders voted, along with 73 per cent of the junior bondholders.

Investors were given cash or share options, but Mr Green's consortium, which includes Rupert Murdoch and the family trust of Michael Milken, will retain at least HNVA 51 per cent of Heron, if the deal becomes unconditional.

Stockbroker queries value of BSkyB

By Raymond Snoddy

The flotation of British Sky Broadcasting greatly overvalues the satellite television venture, according to research by stockbrokers Henderson Crosthwaite.

The firm's media specialist Ms Louise Barton estimates BSkyB is worth £2.6bn, compared with the £4bn-£4.6bn suggested in the flotation proposals.

"We like the company but not its valuation," said Ms Barton who has based her pricing on an average of discounted cashflow analysis and a conventional multiple of 1995-96 earnings.

Henderson Crosthwaite estimates that BSkyB, a consortium in which Pearson, owner of the Financial Times holds a 17.5 per cent stake, will make a pre-tax profit of £479m in the year 2000-01.

This compares with some analysts' forecasts of more than £800m.

Ms Barton warned that a large proportion of the British population appeared to be reasonably happy with terrestrial television "supplemented with the odd video".

She predicts that BSkyB's penetration, through dishes and cable networks, will rise from its present 15 per cent of 21m television homes to 27 per cent of the 24m homes at the turn of the century.

Regent Corporation advances to £0.3m

Regent Corporation, the property developer, announced pre-tax profits of £302,000 for the six months to September 30 on sales of £1.68m.

In the previous first half pre-tax profits were £32,900 on sales of £142,000.

Earnings per share this time came through at 0.91p (0.59p).

Regent said yesterday that it anticipated the early resumption of dividend payments.

Corporate investment in Lloyd's to jump £300m

By Ralph Atkins, Insurance Correspondent

Corporate investment in Lloyd's of London is to increase by more than £300m next year following a last-minute announcement of the launch of a new company, backed by two US institutional funds, which plans to invest £88m.

Hours before the deadline for corporate investors to lodge funds at the insurance market in time for the 1995 underwriting year, Insurance Partners and Harvard Private Capital announced they would provide most of the capital for a venture launched by Charman, a Lloyd's agency.

The new company, which will invest in one insurance syndicate, is the largest of Lloyd's "dedicated" vehicles – in effect embryonic insurance companies.

Its launch is a fillip for the insurance market's attempts to raise extra corporate capital to augment the £900m invested in 1994. Fund raising has been hit by the lacklustre share performance of quoted Lloyd's vehicles and the bad publicity surrounding Lloyd's.

Mr Peter Middleton, Lloyd's chief executive, forecast an extra £250m would be invested in 1995. But so far 13 groups, including Charman, have announced plans to invest a total of £280m and Brockbank, one of Lloyd's largest agencies, is expected to unveil plans to raise about £50m.

Charman's plans provoked controversy in the Lloyd's market when first mooted earlier this year because they entail splitting its syndicate 488 into two. The first syndicate, to keep the number 488, will be supported by existing Names – individuals whose assets have traditionally supported Lloyd's – but its premium writing capacity is expected to fall from £264m this year to about £140m in 1995. The second syndicate, numbered 2488, will use the £88m new money – sufficient to underwrite premiums worth £160m.

Some Names had expressed concern that their interests would not be protected on the old syndicate. But Mr John Charman, the Charman group's managing director, said that "anyone who wanted capacity on 488 was offered it".

Charman shareholders – including Mr Charman, other staff and directors – have also invested in the new company, making Mr Charman among the largest individual investors in the insurance market, albeit with limited liability rather than unlimited liability like most Names.

The two US funds have also purchased 25 per cent in the Charman holding company, the maximum allowed under Lloyd's rules.

Insurance Partners is a \$540m equity investment fund specialising in acquisitions, recapitalisations and other investments in the insurance industry. Its investors include Centre Re, a subsidiary of Zurich Insurance, and Chase Manhattan Bank.

Harvard Private Capital Group manages about \$1.4bn of private investments and is a wholly owned subsidiary of Harvard Management.

Brendan Corr

Safeway's own brand helps cola sales rise 20%

Sir Alistair Grant, above, chairman of the Argyll food retailing group, said yesterday the launch of his Safeway chain's Select Cola had increased its own-label cola sales nine-fold, and its total cola sales by 20 per cent, writes Neil Buckley.

Speaking in the week Mr Richard Branson's Virgin Cola went on sale, adding to the challenge to market leaders Coca-Cola and Pepsi, Sir Alistair said the success of own-label colas demonstrated the positive impact own-brand product launches could still have on retailers' businesses.

The proportion of Safeway's sales accounted for by own-label increased from 39 per cent to 41 per cent in the most recent half-year, helped by the launch of Safeway Savers, a cut-price range aimed at countering competition from discounters.

Verson forms Japanese joint venture

By Geoff Dyer

Verson International, the Midlands-based capital equipment manufacturer, which announced yesterday reduced interim pre-tax losses, has formed a joint venture with a Japanese heavy machinery company.

The group has reached an agreement with Sumitomo Heavy Industries, the specialised forging machinery manufacturer, to jointly market its products in the US and Europe and to produce a large portion of these products at one of Verson's factories.

Verson cut its pre-tax loss by 17 per cent from £2.87m to £2.38m in the six months to July 31. However, turnover fell to £47.8m (£49.4m), reflecting a lower backlog of orders at the beginning of this year.

Interest charges increased to £2.46m (£2.36m). Mr Tim Kelleher, chairman, said that borrowing was "marginally higher" than at the year end, when total debt reached £53.7m, giving a gearing ratio of 440 per cent. The group plans to cut its debt by floating about 50 per cent of the equity in its US operations on Nasdaq, in the next 10 to 22 months.

A charge of £750,000 was taken for the reorganisation of the UK press business, Clearing International, where 80 people have been made redundant. The subsidiary recorded an operating loss of £1.5m.

Income from royalties and service fees jumped to £1.99m (£667,000). New order intake in the first ten months of the year also improved to £109m (£81.6m).

Losses per share were reduced to 1.65p (2p). There is no interim dividend. The shares rose 1p to 16p.

Hollinger buys back 200,000 Telegraph shares

Hollinger, the Canadian publishing company controlled by Mr Conrad Black, has bought a further 200,000 shares at 348p in The Telegraph as part of its policy to buy back up to 6.8m ordinary shares.

The share price yesterday fell by 2p to 350p.

When the policy was announced in early October the shares jumped 20p to 330p.

The latest purchase takes Hollinger's holding to 79.2m shares, or 58.51 per cent of the issued share capital. Mr Black is chairman of both companies.

In May, Hollinger reduced its stake in The Telegraph from 66.2 to 57 per cent, raising C\$152m (£70.7m), only weeks before the Daily Telegraph cut its cover price. The share price consequently slumped from 540p to 332p. A London Stock Exchange inquiry cleared Mr Black of any wrongdoing.

Independent Newspapers debt restructuring move

By John Murray Brown in Dublin

Independent Newspapers, the Dublin-based media group, has announced a debt restructuring in addition to borrowing of £120m to position itself for future acquisitions.

The Dublin-listed company will also seek a London quote, ahead of moves next year when the Dublin and London exchanges separate. Dealings in the new shares are expected to start on December 5.

The plan is outlined in a submission to the London Stock Exchange on the company's proposed acquisition of 34.98 per cent of Argus Newspapers, the South African newspaper company.

Independent Newspapers, controlled by Mr Tony O'Reilly, said it was finalising a long-term financing arrangement with three US insurance companies, under which £60m will be provided over 7 to 10-year maturities. Separately, Independent is negotiating a £30m credit facility for acquisitions and £30m for working capital.

Independent Newspapers has five titles in Ireland also owns 29 per cent of Newspaper Publishing, publisher of the Independent, the UK broadsheet.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Argyll	int	3.9	Feb 20	3.75	-	11.5
Cape	int	3	Jan 20	3	-	11
Carnell §	int	0.25 ♠	Dec 28	-	-	-
Dawson	int	1.5†	Jan 25	1.5	-	3
Enviromed	fin	1.4	-	-	1.6	-
Evans of Leeds	int	0.87	Jan 16	0.79	-	2.53*
Finsbury Smaller	fin	2.2	Mar 30	1.4	3.4	3.2
Fleming Indian	int	0.45	Jan 27	-	-	-
GEI Intl	int	1	Jan 23	nil	-	1.5
Mid Kent	int	5.3	Jan 17	5	-	11.5
Mountview Ests	int	12	Mar 27	10	-	22
Quadramatic	fin	4†	Feb 10	2.55	6.5	1
Sanderson Elect	int	1.6	Feb 6	1.35*	-	2.85*
Sutcliffe Speak	int	0.25☆	Apr 6	nil	-	0.5
Tritast	int	2.35	Jan 25	-	-	0.86
Wainhomes	int	1.5	Jan 20	-	-	-

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. *Adjusted for scrip issue. ♠Final dividend of 0.328p expected. ☆ Payable as a FID.

stment in £300m

Verson form Japanese joint venture

By Geoff Dyer

Newspaper ... turing move

Rising raw material costs and warm weather limit progress

US closure boosts Dawson Intl

By David Blackwell

Dawson International, the Edinburgh-based textiles group that has closed its fleece and jersey business in the US, reported almost doubled interim profits of £15.8m for the 27 weeks to October 1.

The figure compares with £8m, when the discontinued US business made operating losses of £8.6m. Operating profits from continuing operations fell to £19.6m from £22.1m on sales ahead to £204.2m (£191.8m).

Sir Ronald Miller, chairman, spoke of rising raw material prices, citing in particular cashmere from China, which had almost doubled in price. Furthermore, the warm weather of the past couple of months throughout the northern hemisphere had dampened demand.

The pace of future progress depended on the return of consumer confidence in Japan and Europe. Nevertheless, he said the latest figures demonstrated "the inherent strength of the group as it is now constituted".

Tony Andrews

Sir Ronald Miller: latest figures demonstrate inherent strength

Earnings per share were 6.1p, up from 3.1p, and the interim dividend is maintained at 1.5p. Gearing fell from 90 per cent to 52 per cent following the 1-for-4 rights issue in May, which raised £45m.

Operating profits at the fabrics and yarns division eased to £9.6m (£9.8m) on higher sales. Clothing profits fell from £11.1m to £8.8m, while the fabrics division increased profits from £1.7m to £2.6m.

The group has abandoned plans to sell Dawson Home Fashions, a maker of shower curtains and bath mats, and has switched the £12m provision for its disposal to a restructuring charge. The operating loss from the division rose from £500,000 to £1.4m.

● COMMENT

Sir Ronald pointed out yesterday that the exit from the US fleece business would both liberate the group from a financial drain and enable the management to concentrate on the continuing businesses. But it looks like the management will have to run fast just to stand still. Raw material cost increases will be difficult to pass on as consumers are now after value for money rather than luxury brand names, and the recent warm weather has curbed any desire to buy sweaters and thermal underwear. The fierce competition in the US retail market is more likely to appear in Europe and Japan than go away. And the management is still lumbered with the shower curtain business. City analysts yesterday scaled back profit forecasts to below £30m for the full year. At the closing price of 126p, up 2p, the group is on a forward multiple of about 12, which looks high enough.

Sanderson Electronics ahead 27% to £4.23m

By Paul Taylor

Sanderson Electronics, the computer software and hardware company which is also the sponsor of Sheffield Wednesday Football Club, yesterday reported a 27 per cent increase in full-year profits, helped by acquisitions.

Pre-tax profits in the year to September 30 rose from £3.33m to £4.23m on turnover up 44 per cent to £34m (£23.6m).

Earnings per share increased to 7.3p (6.3p).

Sanderson paid a first interim dividend of 1.35p in February and second interim dividend of 1.5p in July, making 2.85p (2.48p) for the year. The company said yesterday it would pay a first interim dividend of 1.6p in February. The shares closed up 2p at 86p.

Sanderson, which has expanded to 15 offices in the UK as well as operations in Australia, New Zealand and east Asia, reported operating profits of £4.31m (£3.59m) while interest costs fell to £82,000 (£267,000).

Mr Paul Thompson, chairman, said the majority of the 11 UK operating subsidiaries had performed well. He added: "All three UK acquisitions contributed to this year's profit.

"Annual recurring revenues from software licence fees and service and support contracts provided turnover of over £134m during the year and covered 72 per cent of overheads. We have continued to invest substantial amounts in the development of our open system application software packages."

3i may form venture capital investment trust

By Richard Gourlay

3i, the UK's largest investor in unquoted companies, is considering setting up a venture capital investment trust following the Budget announcement of tax incentives for investors in these new vehicles.

Mr Charles Richardson, director of corporate affairs, said 3i was seriously considering the new scheme, which seemed "very interesting" to private investors.

The new VCITs will issue quoted shares, like any investment trust, but will make investments of up to £1m in unquoted companies.

Private investors will be allowed to invest up £100,000 in VCITs, which are likely to be launched in the spring. These more than averagely risky investments carry income tax relief of 20 per cent on purchase of the shares. In addition investors will be able to defer capital gains tax liabilities on the sale of almost any other asset, if those gains are reinvested in VCIT shares.

This brings the total potential front-end tax break on investment in VCIT shares to 60 per cent, on top of which investors will receive relief from any capital gains or dividends from their trust shares.

Even if 3i does not set up its own VCIT, it will still benefit from the enthusiasm for the new vehicles shown by other venture capital groups, such as Electra and Murray Johnstone.

The FT-SE 100 group has a policy of taking a minority stake only in the companies in which it invests. It therefore requires syndicate partners with which to co-invest. But because 3i tends to invest in companies that are smaller than most venture capital funds will look at, it has sometimes had difficulty finding co-investors.

Managers of new VCITs will be anxious to minimise the cost of sifting through a large number of small potential deals. Co-investing the funds alongside smaller deals that 3i wants to back would be an attractive way to find *deals* and invest relatively cheaply.

3i has an established network of offices around the UK with good contacts with regional accounting firms – a source of deals of all sizes. Other venture capital groups considering setting up VCITs would need to make a greater proportionate increase in their staff levels to seek potential deals.

3i is also likely to benefit from the Chancellor's relaxation of rules on which investment trusts qualify to be included in personal equity plans. Like many of the 21 other quoted venture capital trusts, 3i's shares can now be included in a general Pep.

The old rules stated that 50 per cent of an investment trust's assets had to be held in ordinary shares in order to be included in a general Pep. The Chancellor has now allowed preference shares in unquoted companies to be included as well.

Investors take care as they venture out again

Richard Gourlay analyses the background to the collapse of the buy-out for National Parking

An air of deep despondency has descended over Prudential Venture Managers, the venture capital company that was leading the buy-out of National Parking Corporation until the deal collapsed last week.

The 11th hour loss of a transaction worth about £600m that would have been the largest in the industry for three years has taken the gloss off what Mr Paul Brooks, managing director, says has otherwise been a sparkling year for the Prudential.

After six intense months scrutinising NPC and its main asset, National Car Parks, the syndicate's final offer last Thursday was not high enough to tempt Sir Donald Gosling, the founder and pivotal shareholder.

Yet the decision by Prudential and its syndicate investors not to proceed should be seen as a victory for common sense.

Not only has the industry turned its back on a deal it thought was overpriced, it has shown this restraint at a time when venture capitalists are awash with money they want to invest, and when banks are once again anxious to lend to management buy-out teams.

So far this year, management buy-out and venture capital funds have raised more than £1.5bn in new money. Despite dire warnings a year ago that fund raising would be difficult, a late burst of flotations early this year perked up some otherwise ordinary performance figures.

In the event, UK investors and US institutions, who are allocating an increasing proportion of their funds to what they call "alternative investments", stumped up. As a result, 1994 will be the best year for fund raising since the last boom year of 1989.

At the same time, banks, which had almost entirely stopped providing debt to management buy-outs, have returned in numbers. A year ago the few banks still lending, such as Bank of Scotland and NatWest Bank, were unwilling to take more than £50m of debt on to their own books in any transaction. However a number of other banks are now willing to lend more than £200m on their own.

Mr Jon Moulton, a partner at Apax Partners, a venture capital group, says the fund raising and banks' appetite to lend has produced "a wall of money" and stiff competition for deals.

Some venture capitalists fear the prices of deals will be bid up by hungry investors and bankers. They fear a repeat of the late 1980s when the industry backed highly leveraged buy-outs such as that of Magnet, the kitchens company, and Isosceles, the supermarket group, based on optimistic assumptions about the businesses' growth potential and ability to generate cash.

"It is only a matter of time before venture capitalists find a way to overpay again," says Mr Moulton. "There is no doubt that the market will be very aggressive in the next 18 months."

Against this background, the refusal of the Prudential syndicate to "overpay", as they saw it, has led to a degree of self-congratulation. The "industry is maturing and learning self-restraint", one intermediary said.

There is some justification for this view. At no time was the quality of the NPC business in question. Its main asset, National Car Parks, has a rock solid cash flow and an excellent quality of earnings, according to venture capitalists close to the negotiation.

Yet the very stability of the business meant the Prudential could not pay any more. While the NCP business was solid, analysts saw it as having limited growth potential. Yet the £650m price the founders are understood to have been asking implied a historic price earnings ratio of nearly 20.

This would have been a significant premium to the current stock market and much higher than venture capitalists are usually prepared to pay even for businesses that are growing quickly.

The Prudential syndicate is understood to have been prepared to pay £600m including a performance related deferred payment, a sum which the Prudential said it had "every confidence" it could raise.

But this implied a valuation of nearly 17 times historic earnings. The syndicate may have resisted loading the transaction with debt, but it is still questionable whether this was cautious pricing.

Evans Leeds rises 15%

Evans of Leeds, the property investment company, reported a 15 per cent increase in pre-tax profits from £4.06m to £4.67m for the half year to September 30.

Gross rental income rose from £10.9m to £12m over the period, while the sale of stock properties contributed £298,000 (£236,000) to turnover of £12.3m (£11.1m).

Earnings came out at 2.65p (2.38p) per share and the interim dividend is increased to 0.87p (0.79p).

Nu-Swift plans £6.5m property injection for London Securities

By David Wighton

Nu-Swift, the fire protection and property group that was taken private in March, is proposing to inject a £6.5m commercial property portfolio into London Securities, taking its stake in the quoted shell company to 75 per cent.

Nu-Swift, which is controlled by Mr Jacques Murray, already has a 29 per cent stake in London Securities.

London Securities is to pay £6.79m in new shares for a portfolio of six commercial properties, valued at £17.6m by Jones Lang Wootton, giving a net value of £6.2m after related debt of £11.2m.

Current rental income is about £1.8m a year. Nu-Swift will place some of the shares it receives to limit its stake to 75 per cent.

London Securities' company voluntary arrangement with creditors entered in October 1992, expired in October this year. Most of the group's assets have been sold and the proceeds used to repay secured creditors.

The company made a pre-tax loss of £225,000 (£342,000) in the year to September, representing the costs of operating the voluntary arrangement. The company warned that its cash resources stand at about £10,000 and would run out by the end of January if no action was taken. The shares were suspended at 2¾p.

NEWS DIGEST

Andrews Sykes £2m in red

As warned of in August, exceptional costs of £2m connected to its reorganisation kept Andrews Sykes, the industrial services group, in the red to the tune of £1.96m in the first half.

Turnover increased to £26.3m (£25.1m) and operating profit was 45 per cent up at £602,000 (£415,000) in the six months to September 30. The exceptional item included the write-off of fixtures and fittings, plant and machinery and redundancies due to the closure of two sites.

Discontinued operations contributed £555,000 (£539,000), from turnover of £4.45m (£5.08m), but interest payments took £932,000 (£820,000).

The previous first half carried a pre-tax loss of £2.34m, after losses of £2.05m on the sale and closure of discontinued activities.

Losses per share 16.6p (19.4p).

The group said that during the period under review, the workforce had been reduced by about 15 per cent.

There are plans for further non-core disposals and asset realisations.

Lister loss increases

Losses at Lister & Co increased sharply in the half-year to October 1, because of depressed demand in the textile sector and losses in the engineering businesses.

On static sales of £17.7m the pre-tax deficit jumped from £288,000 to £700,000. On a per share basis the loss worked through at 4.32p (1.85p).

Lister said its engineering business had been reviewed and a new managing director had been appointed.

Courtyard Leisure

Courtyard Leisure, the USM-quoted wine bar and restaurant operator, reported pre-tax losses reduced from £197,693 to £79,055 for the half year to September 30.

The improvement was achieved on sales down from £979,233 to £769,913, although last year's figure included the operations of Benjamin Stillingfleet, sold in September.

Losses per share emerged at 0.57p (1.47p).

Mountview Estates

Pre-tax profits of Mountview Estates, the property trading group, showed a 45 per cent advance from £3.37m to £4.9m in the six months to end-September. Turnover improved by some £2m to £9.01m.

Earnings came out at 71.6p (49.3p) and the interim dividend is raised by 2p to 12p.

Enviromed advances

A strong contribution from acquisitions helped Enviromed, the biotechnology and healthcare group, to achieve a four-fold increase in pre-tax profits from £546,000 to £2.21m in the year to end-September.

Of the advance, £1.21m came from two acquisitions made during the period.

Turnover grew from £5.3m to £8.52m, bolstered by £2.49m from acquisitions. Earnings came out at 7.85p (7.13p).

A final dividend of 1.4p is proposed, making a total for the year of 1.6p.

Since the year end Enviromed has expanded via the £7.42m acquisition of F&H Baxter (Holdings), a dental equipment and supplies company.

GEI jumps to £1m

On turnover just lower at £37.4m, against £37.6m, GEI International, the packaging and processing machinery concern, boosted pre-tax profits from £131,000 to £1.04m for the six months to September 30.

Earnings per share were well ahead at 2.12p (0.21p) and the group is returning to the interim dividend list with a 1p net payment – last year's single, final, distribution was 1.5p from pre-tax profits of £2.13m.

IES at £271,000

IES Group, the security company traded under Rule 4.2, reported pre-tax profits of £271,000 on turnover of £1.61m in the nine months since its share placing in December.

Earnings for the period to September 30 were 9.9p.

Trifast

Trifast, the industrial fastenings group which came to the market in February, reported pre-tax profits up from £1.16m to £1.94m in the six months to September 30, despite exceptional costs of £242,000 on an aborted acquisition.

Earnings were 7.69p (5.6p) and the interim dividend 2.35p.

Carnell declines

For the six months ended September 30 pre-tax profits of Carnell fell from £167,000 to £130,000, despite turnover of £1.23m, against £848,000.

Earnings of this USM-traded concern were 0.56p (0.86p) while the interim dividend is 0.25p (nil). The directors expect to recommend a final dividend of 0.326p.

COMPANY NEWS: UK

Dairy Crest suffers from pricing pressures

By Deborah Hargreaves

Dairy Crest, the processing arm of the former Milk Marketing Board, reported a 28 per cent drop in interim operating profits from £19.5m to £14m, following pressure on milk prices and cheese margins in the run-up to market deregulation.

The company is now owned by the residuary body charged with winding up milk board business, and speculation about its future has been rife for many months.

Mr John Houliston, chief executive, said the body had two years to make a decision about Dairy Crest's fate, but it had to consider the feasibility of a stock market flotation as a first option.

Flotation was initially planned for this autumn, but was put off because of uncertainty over milk prices in the new competitive market. "Who would sell a dairy company now? We're in no hurry to be sold," said Mr Houliston.

He said profits had been halved in recent months after milk prices rose substantially in the new market which started on November 1.

"But the really difficult time will come next year when we will see if price rises for cheese stick and whether the higher prices suck in more imports."

The dairy industry must recover an additional £450 to £500 a tonne on cheddar cheese if it is to cover higher milk costs. That means consumer cheese prices must rise by at least 40p a lb – 10p has already been passed on, with an extra 30p to come in the New Year, taking the price for a pound of mature cheddar to £3.

Mr Michael Landymore, food analyst at Henderson Crosthwaite, the London brokers, said: "Dairy Crest has been powering away at the mature end of the cheese market as a source of profit, but that is predicated on demand holding up in the face of higher prices."

The company has completed an extensive rationalisation to shape up for market liberalisation. And other dairy companies, such as Northern Foods and Unigate, have yet to announce substantial rationalisation plans. The number of Dairy Crest plants has been cut from 28 to 10 in the past three years and the workforce reduced from 13,000 to 4,200.

Recent closures and rationalisation of the company's transport interests resulted in exceptional costs of £16m (£21.9m) in the half-year to September 30 which, along with net interest receivable of £900,000 (£1.6m payable), took the pre-tax profit to £1m (£600,000).

Dairy Crest is basing its strategy on concentrating on higher value consumer products, such as its Clover spread and recently launched Frijj milk drink, but the bulk of its turnover still comes from liquid milk and cheese sales which are under strong competitive pressure.

Doorstep sales accounted for £235m out of a total turnover on continuing operations of £403.4m (£409m), but are declining at a rate of 15 per cent a year.

The drop in milk deliveries is likely to continue for several years. Mr Houliston said the deterioration could stabilise with 80 per cent of sales in supermarkets, compared with the current 55 per cent.

Cape shares fall despite 7% advance to £6.5m

By Geoff Dyer

DyerShares in Cape, the building products and industrial services group, fell 8p to 223p yesterday after it announced a 6 per cent fall in sales at continuing businesses.

Turnover on continuing operations – excluding acquisitions – dropped to £111.3m, the main decline coming in the industrial services division. Mr Michael Farebrother, chief executive, blamed falling demand for insulation services.

A lower interest charge of £300,000 (£600,000) helped overall pre-tax profits to advance by 7 per cent to £6.5m (£6.1m). Total turnover for the six months to September 30 was down 5 per cent at £113m (£119m).

Despite a 9 per cent drop in turnover from industrial services to £76m (£83.6m), profits nudged up £100,000 to £3.4m. Mr Farebrother said demand for insulation services, which had been particularly poor in France, was not expected to pick up until 1996.

The French insulation subsidiary SOCAP made losses of £400,000 in the first half, although it had been expected to break even. Similar losses are expected in the second half. Last year SOCAP management was dismissed after financial mis-statements were discovered. A further restructuring involving 30 redundancies is planned.

Operating profits from building and architectural products edged up to £4.3m (£4.1m) on sales 3 per cent higher at £36.5m (£35.3m). This was despite increased raw materials costs of 18 per cent for steel and 40 per cent for pulp. UK sales in the second quarter were up for the first time in four years.

The charge for compensation for industrial disease – a number of former employees contracted asbestos-related illnesses – remained at £800,000. Mr Farebrother said the group had no US operations and did not face any litigation claims.

Earnings per share and the interim dividend were unchanged at 7.6p and 3p.

Drugs setback for British Biotech

By Daniel Green

British Biotech, one of the best performing stocks in its sector on either side of the Atlantic this year, has dropped two of its research programmes.

Disappointing results of early clinical trials prompted the company to abandon one form of Aids vaccine, p24-VLP, and the use of another drug, lexipafant, for septic shock.

The company also announced a second quarter pre-tax loss of £6.63m, against a deficit of £4.61m in the comparable period last year. This brings the loss for the half year to October 31 to £12.3m, against £8.81m.

Turnover for the quarter increased from £693,000 to £858,000 – mostly as a result of grant funding – making a deficit of £1.63m (£2.83m) to date. Losses per share for the quarter emerged at 13.7p (11.9p), amounting to 25.6p (22.8p) for the six months.

The company, which raised £46m in a rights issue in March, had cash and short-term investments of £58.2m at the end of the quarter. At the time of the rights issue it also sold warrants exercisable from December 1995 that could raise another £48m.

Other clinical trials are progressing steadily and important results are expected during 1995, described as "a pivotal year" for the company by chairman Mr Brian Richards.

● Statistically significant trials on the injectable version of batimastat should yield results by the summer. Early trials on the same drug used for a different condition, called pleural effusion, should begin in Europe and the US.

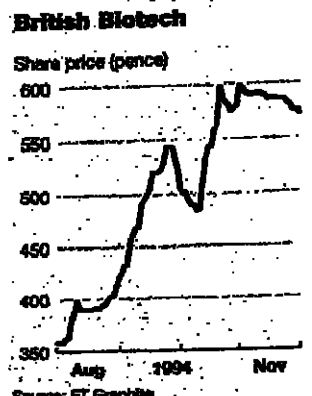
● Results from early lexipafant trials in heart bypass surgery and asthma should be available during 1995. Late stage trials in pancreatitis will not be complete until 1996.

● Early stage trials in BB-2516, a pill version of batimastat, should start "around the middle of 1995" in several tumour types and in both the US and Europe.

● There will be further initial clinical studies on BB-10010, designed to protect bone marrow against damage during cancer chemotherapy.

The shares fell 2p to 573p yesterday.

British Biotech



Source: FT Graphite

● COMMENT

Abandoning drugs in early development is a sign of strength, not weakness. Too many of British Biotech's peers have carried on with a doubtful drug to secure further funding or because they had nothing else. But little else is rational about British Biotech's share price strength. The stock has risen from 400p to almost 600p since midsummer, even though the company's top drugs, batimastat and lexipafant, have yet to succeed in statistically significant trials – the ones that count for regulators. On the other hand, few analysts discourage a feel-good sensation among investors. If either drug is a success, the shares could be worth many times their present value. Rational investors will have to wait for a year to see if the company is prepared to release the result of trials before the warrant exercise date. Until then, emotion may well drive the share price up further.

Endowed with the power to sell

Nicholas Denton on Kleinwort Benson's latest privatisation coup

The selection of an adviser on a key Latin American power sell-off has confirmed UK investment banks' domination of electricity privatisation.

It emerged this week that Codelco Chile, the state copper mining group, has appointed Kleinwort Benson of the UK to handle the sale of a 570MW coal-fired power plant, valued at $500m (£305m). One of the two runners-up for the privatisation of the Tocopilla power station was also London-based: NM Rothschild made it to the shortlist as well as CS First Boston of the US.

About 80 per cent of international electricity privatisations have involved either Kleinwort or Rothschild, one UK investment banker estimates. The energy specialists of the two firms bump into each other in hotels all over the world.

The impetus came from the UK's electricity privatisation on which Kleinwort advised the government and Rothschild the Recs. "It gave us leverage," says Mr Simon Robertson, deputy chairman of Kleinwort.

As work in the UK tailed off, Argentina's electricity sell-off, on which Kleinwort advised the government, took off. It has privatisation mandates in the UK, Portugal and Italy, as well as in Chile.

Rothschild's record is equally impressive. It lists no fewer than 23 international electricity transactions on which it has advised. In South America alone, Rothschild has worked in Chile, Argentina, Peru and Brazil.

Even US competitors concede UK banks' strengths. "Kleinwort does have a lot of experience in these transactions," says Mr Dan More, head of Morgan Stanley's London-based energy group. About 30 Kleinwort staff worked on UK electricity privatisation and the core of that energy team remains, headed by Mr Richard Morse.

But critics say that the Kleinwort team, now 12 strong, is not particularly deep. And to the extent that Kleinwort has a franchise in electricity privatisation it is one that is dependent on individuals. They are poachable: Morgan Stanley has hired Mr Glenn Suarez to beef up its team.

Investment bank advisers on electricity privatisations

Investment bank	Value $m
Kleinwort Benson	15,023
Rothschild	12,614
BZW - Bank of Scotland	5,385
CS First Boston	2,499
Lazard Brothers	2,278
Morgan Grenfell	1,163
SG Warburg	1,395
Goldman Sachs	1,050
Lehman Brothers	625

Note: Joint advisers credited with full value of transaction

Source: Privatisation International database

Rival investment banks point out, moreover, that the UK houses' dominance of the electricity advisory rankings is a function of their work on the UK privatisation, which remains by far the largest so far. Internationally, CS First Boston, Morgan Stanley and Salomon Brothers have also established reputations in the sector.

For all the carping, advice on electricity is widely acknowledged to be a strength of UK houses. "It's a thriving industry, the export of these kinds of services," says Mr Charles Alexander, Rothschild's head for Latin America.

Rothschild has what investment bankers describe as "a real niche" in privatisation advisory work. And Kleinwort's work on Argentinian electricity privatisation helped tide the firm through a period which it is now the first to admit was "awful".

Kleinwort's privatisation experience also pushed it to embrace the idea of departments organised around sectors. "Everybody says they do it now. We were very early," says Mr Robertson.

One key question remains. Advisory work on privatisation allows investment banks to establish close contact with company managements. It is not in itself the most lucrative part of investment banking.

The pay-off often comes in ongoing business, such as capital raising exercises. US investment bankers wonder whether Kleinwort and Rothschild may not be too specialised to do that.

North of England helps Wainhomes to £5.28m

By Andrew Taylor, Construction Correspondent

Wainhomes, the Chester-based house builder which came to the market in spring, increased interim pre-tax profits by almost half to £5.28m, compared with £3.54m.

The company's share price, up 1p at 131p, remains more than a fifth below its issue price of 170p.

Turnover rose by 36 per cent to £48.6m (£35.8m) for the six months to the end of September. The company completed a record 682 sales compared with 502 for the same period last year.

The bulk of the increase had been achieved by the businesses in north-west England and Yorkshire. Its operation in southern England nonetheless contributed almost a fifth of operating profits with the region enjoying "its most successful trading period to date".

The group also reported its first sales in the Midlands where it has only recently expanded.

Mr Ron Smith, chief executive, was cautious about the outlook for prices: "In the north-west, which accounts for the majority of our business, prices have been and remain under pressure."

This pressure, however, had been offset by overhead and marketing economies of scale. Average house prices across the group's businesses in the first half were similar to last year's level. Operating margins improved slightly from 10.2 per cent to 10.4 per cent.

Mr Smith said changes in product mix were expected to increase average selling prices in the second half.

Wainhomes is paying an interim dividend of 1.5p out of earnings per share of 5.7p (5.4p).

At the end of September, the group had £8.7m cash having increased the number of housing plots under its control to just under 3,200 compared with 2,300 in September 1993. It expects the number of homes sold annually to rise by about 500 to at least 1,800 within three years.

Brokers' forecasts suggest the company will make more than £10m pre-tax profit this year compared with £6.23m in 1993-94.

Organic growth boosts Quadramatic 63% to £7.5m

By Peter Pearse

Shares in Quadramatic climbed 17p to 188p yesterday as the acquisitive specialist engineer announced a 63 per cent pre-tax profits increase from £4.6m to £7.5m in the 12 months to September 30, its first full year as a quoted company.

The flotation price was 123p.

Mr Tony Gartland, chairman, stressed that there had been organic growth within the group – including within the acquired companies since purchase – of 17 per cent. For example, the instruments division – including Quota for 11 months since its £11.25m acquisition and KM Comark bought for £3.8m in June 1994 – lifted operating profits by 36 per cent to £2.4m. The operating margin was 25.2 per cent.

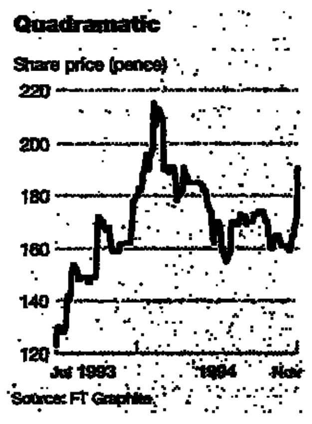
Operating profits in the core coin handling division rose 20 per cent to £4.9m on turnover down 1 per cent to £21.1m. The margin rose one percentage point to 20.1 per cent. Mr Gartland said the group had knocked out $1m of low-margin turnover in the division and that chasing high-margin profits, not sales was the priority.

In specialist moulded products, profits grew to £790,000 (£680,000) on turnover up 6 per cent at £6.6m. Barely a week ago, the group announced the acquisition of Kestrel Injection Moulders for an initial £4.4m and up to £6.6m in total.

On the acquisitions front Mr Gartland said he wanted to expand the temperature measuring and plastic moulding sides. Private companies were the likeliest targets and he said he was prepared to "pay a lot for goodwill" – topping management buy-out offers – acknowledging that in tangible terms this might make the balance sheet "a bit thin".

Group turnover rose to £37m (£27.4m) including £9.36m from Quota and Comark. Some 64 (55) per cent of the group total is derived from outside the UK and, notwithstanding the UK-bound Kestrel, is expected to rise. Operating profits were £7.5m. A final dividend of 4p is a 57 per cent increase on the pro forma 2.55p and makes a total for the year of 6.5p, twice covered by basic earnings per share of 13p (9.8p).

Quadramatic



Source: FT Graphite

Sweb to acquire cable stake

By Michael Smith

South Western Electricity has agreed to pay £4m for a 30 per cent equity stake in Eurobell (South West), the Exeter based company which holds the franchise for providing cable-based telephone and television services in south Devon.

Sweb will also provide up to £11m as a shareholder loan to Eurobell, to be met from cash resources. Eurobell plans to offer advanced telecommunications services aimed at business users as well as domestic telephony and entertainment programming.

Monks Investment

Monks Investment Trust, reported net assets down 4 per cent to 568.2p at October 31, against 591.6p six months earlier.

Net revenue for the half year grew to £4.32m (£3.53m). Earnings per share were 5.57p (4.55p) and the interim dividend has been held at 2p.

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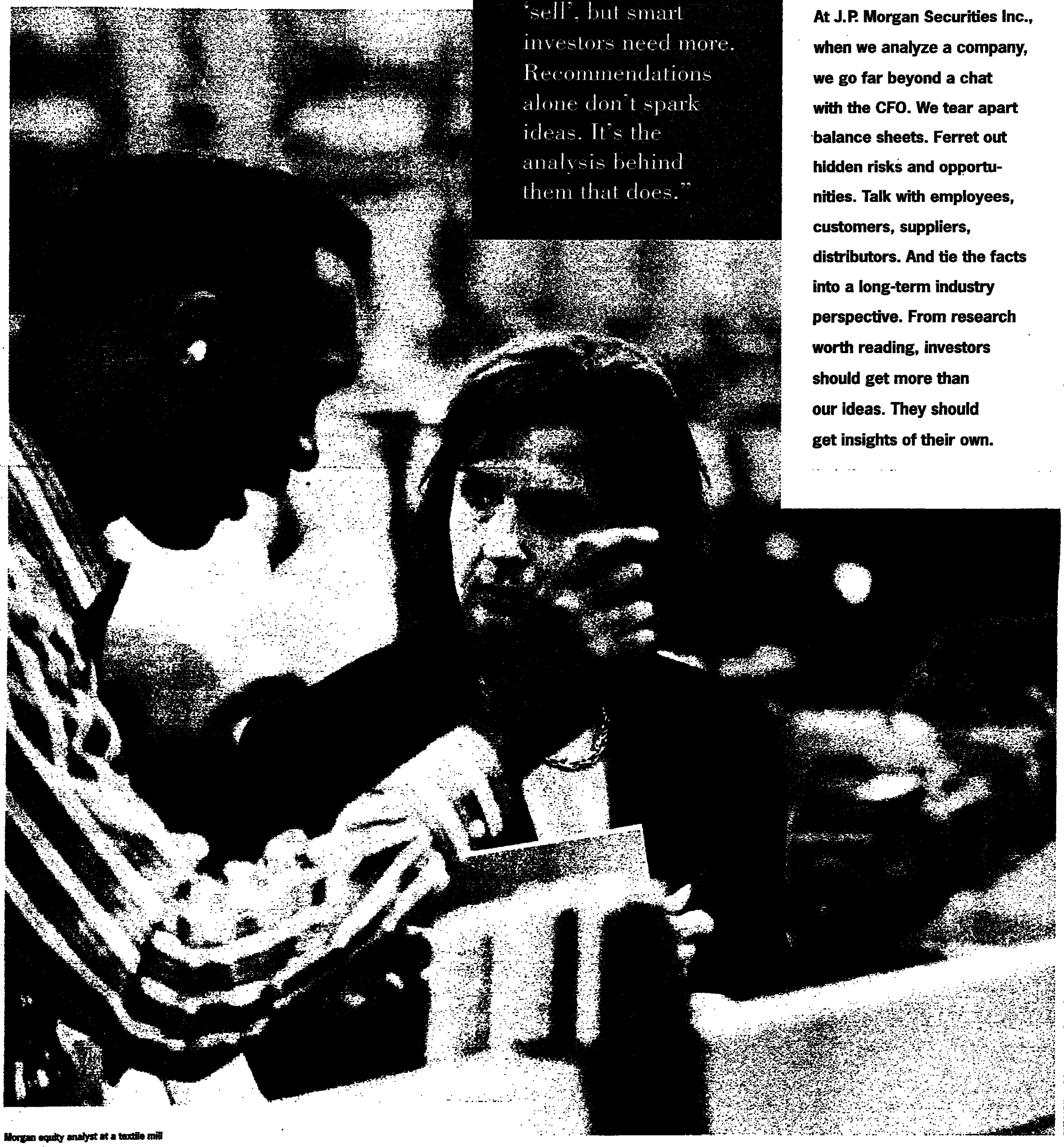
Insight

"Any equity analyst can say 'buy' or 'sell', but smart investors need more. Recommendations alone don't spark ideas. It's the analysis behind them that does."



Morgan equity analyst at a textile mill

At J.P. Morgan Securities Inc., when we analyze a company, we go far beyond a chat with the CFO. We tear apart balance sheets. Ferret out hidden risks and opportunities. Talk with employees, customers, suppliers, distributors. And tie the facts into a long-term industry perspective. From research worth reading, investors should get more than our ideas. They should get insights of their own.

JPMorgan

COMMODITIES AND AGRICULTURE

Norilsk problem helps drive up nickel prices

By Kenneth Gooding, Mining Correspondent

Nickel prices yesterday jumped to their highest level for two and three quarter years, helped by fresh fears about production problems at Norilsk in Russia, which is the world's biggest producer and accounts for about 15 per cent of total output.

The market's concern about Norilsk's situation was echoed by Mr David Allen, vice-president for public and government affairs, at Inco of Canada, the Russian group's biggest rival. He said that in recent months Inco had changed its assumptions about Norilsk's ability to maintain production at last year's level. "Our own visits, and everything we read, suggests Norilsk will not be able to do that."

The Russian group was so short of money it was failing to pay its workforce for weeks on end and cannibalising equipment to keep going. "You can't go on for long like that without costs increasing and output falling," said Mr Allen.

Norilsk needed "a huge amount of capital and there is no sign that it is getting any". It did not collect much from the recent shares issue. He pointed out that, in the longer term, Norilsk would have to do something about its enormous environmental problems – its smelters are among the world's worst polluters.

Inco signed a technical assistance protocol with Norilsk in February 1993 but this had "got absolutely nowhere", said Mr Allen. "It is very difficult to conduct relations with them. They have shown no interest."

He said Inco helped Norilsk, at the Russians' request, by organising a teach-in in Toronto about privatisation. This involved western bankers and consultants invited by the Canadian group. "Yet today they [Norilsk executives] sometimes won't answer telephone calls or faxes from us." Mr Allen said the relationship between the two groups was "not hostile, but it is not particularly productive".

Mr Allen was in London following the formal inauguration this week of an £8.5m nickel coating facility at the group's refinery in South Wales.

Yesterday's market concerns about Norilsk helped to take the price of nickel for delivery in three months to $8,200 at one point where it met strong resistence. Nevertheless, it closed at $8,157.50 a tonne, up $332.50 on the day and $637 above this week's low point.

Worries continued to focus on the after-effects of an accident at a power plant supplying the group in northern Siberia early last month. Traders in London suggested early yesterday that about 25,000 people had been evacuated, pipes had frozen at the smelter and Norilsk's line carrying concentrate (an intermediate material) was out of action. Norilsk insisted that it would honour its commitments to customers and a Norilsk city official told the Reuters news agency that heating to homes was being maintained "at a low but acceptable level".

However, about 32,000 people in the small Arctic town of Talnakh, 25km north of Norilsk, were without heating or water because of a water pipeline break. Repairs were almost completed, an official insisted.

Inter-Tass news agency said that in Murmansk, on the Kola Peninsula, only one-third of the required heating was delivered to houses because of the heavy debts – totalling US$62m – owed to energy producers.

Soyabean patent breeds discontent

Geoff Tansey reports on latest moves in the battle for control of tomorrow's seeds

The battle over who will control tomorrow's seeds enters another round today when a Canadian public interest group makes a European challenge to an attempt to gain monopoly control of all genetically-engineered soyabean seeds and plants.

The Rural Advancement Foundation International is supported by 17 other non-governmental organisations from all over the world. It is opposing a patent application at the European Patent Office by Agracetus, a wholly-owned biotechnology subsidiary company of US multinational W.R. Grace & Company, the world's largest speciality chemicals company with 1993 sales exceeding $4.4bn. Only just over 1m acres (400,000ha) of soyabeans are grown in the European Union, but the worldwide total is about 130m acres, nearly half in the US. The crop's value is around $27bn annually.

The controversial patent covers all forms of genetically engineered soyabean plants and seeds, irrespective of the genes used or the transformation technology employed. "A patent granting a single corporation monopoly control over genetic research on one of the world's most important food crops – soyabeans – is a threat to world food security, and demonstrates that the patent system is recklessly out-of-control," claims Patrick Mooney, executive director of RAFI.

"The soyabean patent is technically flawed and morally unacceptable – and it must be revoked."

The notice of opposition, filed just days before the deadline, claims that the patent does not meet the necessary technical criteria. RAFI argues that it is neither novel nor non-obvious and that it contains insufficient disclosure. It also argues on ethical and moral grounds that no company should be given such broad-ranging monopoly rights over a plant species.

Seed companies share RAFI's concern. "I believe it is ethically wrong," says Ed Dart, research and development director of Zeneca Seeds, about the species-wide patent. "If they have got a transformation method then they should get a patent for that method," he says, but not for others not invented.

Agracetus "intends to make non-exclusive licences broadly available at reasonable terms", according to a company statement. It will also offer free licences to academic or government researchers to "ensure that publicly funded research will proceed unaffected by this patent". No licences have been requested up to now according to Russ Smestad, vice-president of Agracetus.

> 'The soyabean patent is technically flawed and morally unacceptable – and it must be revoked'

Dr Geoff Hawtin, director of the Rome-based International Plant Genetic Resources Institute, is highly sceptical of such claims about the impact on research. He is gravely concerned about species-wide patents, fearing that they could put a stranglehold on the future development of the species involved. Other companies or researchers would be discouraged, not just in soyabean research, but in other crops. "One danger I see," he says, "is that investments made in genetic engineering by companies and countries through public research will count for nothing when this type of patent is awarded." Such awards are likely to discourage research unless the researcher is sure to be able to get the patent, he believes.

Mr Smestad rejects such fears, drawing a parallel with the development of hybrid seeds, beginning with maize in the 1920s and 1930s. This helped catalyse the conversion from a seed industry largely supported by public breeding programmes to one supported by major, private seed companies, but it did not stop research, he argues.

Although the initial effects of species-wide patents are likely to be felt first in the seed industry of the developed countries, Dr Hawtin expects them to affect developing countries too. Many of these have not recognised patents so far but the new Gatt settlement means that many countries will have to recognise them, he warns.

Under patent law, say RAFI, "it is illegal for farmers to save transgenic soyabean seed harvested on their land for replanting". They may have to make royalty payments. Moreover, since many developed countries prevent import of products infringing a patent, "in the case of transgenic soyabeans, signatory states to the EPC [European Patent Convention] would be legally permitted to block imports of transgenic soyabeans, or even products derived from soyabeans (such as oil or animal feeds containing transgenic soya) if they originated in countries that fail to recognise the patent", RAFI argues in its opposition statement.

Agracetus counters that it is simply following similar patent strategies to the rest of the biotechnology community. It wants patent coverage as broad as the patent laws allow.

Overall W.R. Grace sees patent protection as the key stimulus to global scientific advance and innovation. "In countries with weak patent protection, companies will be reluctant to invest in research and development at the risk of having their intellectual property pirated," said a company official.

Agracetus has also applied for a similar soyabean patent in Canada and the US and received a wide-ranging patent in Australia in 1992.

Opposition appears to be mounting, however, to species-wide patents. An earlier Agracetus patent on transgenic cotton is being challenged by the US Department of Agriculture and another, anonymous, party in the US. The Indian government has also announced its intention of revoking the company's cotton patent and, in Canada, RAFI is challenging the soyabean patent.

Go-ahead expected for Western Australian gas pipeline project

By Nikki Tait in Sydney

Participants in the A$440m Goldfields Gas Transmission project in Western Australia yesterday submitted final proposals to the state government, amid indications from Mr Richard Court, the WA premier, that the project will probably gain final ministerial approval in late-January.

The project involves building a 1,400km gas pipeline from Karratha, near Port Hedland, through the Eastern Goldfields to Kalgoorlie. This would be used to transport gas from the offshore fields to the mining area, and to power projects en route. The participants in the venture are Western Mining's Wesminco Oil subsidiary, Normandy Pipelines, which is part of Normandy Poseidon, and BHP Minerals.

As part of the scheme, BHP plans to use a spur line to carry gas to a newly-constructed power station that will supply its iron ore operations in Newman. This would eliminate the need for an overhead electricity transmission line from the Port Hedland power station to the WA town.

If the project gets the final go-ahead by end-January, it is anticipated that the first gas deliveries should take place in the second half of 1996 to the Goldfields, with Newman coming on stream slightly earlier. Mr Colin Barnett, the WA resource development minister, said that the pipeline was expected to provide energy savings of anything from 15 to 50 per cent to companies using the gas to power operations.

Metdist to build $500m copper refinery in India

By Kenneth Gooding

A US$500m copper smelter and refinery with an associated copper rod plant is to be built in India by Metdist, the privately-owned, UK-based group whose chairman, Mr Raj Bagri, is also chairman of the London Metal Exchange.

Mitsubishi Materials Corporation of Japan is to supply the technology and will take an 18 per cent interest in the project.

Scheduled to start up in 1998, the new complex will have the capacity to produce some 150,000 tonnes of refined copper annually using Mitsubishi's continuous smelting technology, and about 60,000 tonnes of continuous cast copper rod.

The plants will be located at Pipavav in Gujarat, where the state government has agreed to allot the land required and the State Pollution Control Authorities have issued a "no objection" certificate.

The project will have its own jetty with highly mechanised facilities.

Mr Bagri said a company would be set up to implement the project and 40 per cent would be floated on a stock exchange when construction was well under way.

Metdist will manage the plants and Mitsubishi, as well as providing know-how and technical assistance, will subscribe cash for its 18 per cent of the new Indian company.

Mr Bagri described the project as a "very logical extension of Metdist's presence in the world of physical metals – a logical backward integration". His group at present operates two continuous cast copper rod and wire mills and a thin-wall, inner-grooved, air-conditioning copper tube plant in Malaysia with a combined fabricating capacity of more than 100,000 tonnes of copper a year.

Mitsubishi has worked closely with Metdist for some years in Malaysia and has a 15 per cent stake in the tube manufacturing plant.

Metdist, with a turnover of about US$600m a year, is also involved the non-ferrous metals trade and one of its subsidiaries is a ring-dealing LME member. Mr Bagri said his group was therefore well positioned to export any part of the new Indian production surplus to domestic requirements.

The Indian smelter will produce 450,000 tonnes a year of sulphuric acid as a by-product. Mr Bagri pointed out that India imported about 1m tonnes a year of elemental sulphur to produce this acid and said some of the production would go to replace these imports.

In addition, a plant to use sulphuric acid to produce phosphoric acid – used in fertiliser production – might be built.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1910-11	1936-37
Previous	1869-70	1889-90
High/low	1930/1929	1949/1920
AM Official	1928-29	1949-50
Kerb close		1937-8
Open int.	261,152	
Total daily turnover	61,856	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1845-55	1875-85
Previous	1825-35	1860-63
High/low		1890/1860
AM Official	1850-60	1880-90
Kerb close		1860-5
Open int.	3,057	
Total daily turnover	455	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	636.5-37.5	654-55
Previous	630.5-31.5	549-50
High/low	642.5	663/653
AM Official	642.5-43.0	660-60.5
Kerb close		654-5
Open int.	43,880	
Total daily turnover	8,080	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8025-35	8155-60
Previous	7695-705	7820-30
High/low	8030/8025	8210/7970
AM Official	8025-30	8158-62
Kerb close		8150-60
Open int.	69,248	
Total daily turnover	16,169	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6065-75	6155-60
Previous	5795-805	5885-90
High/low		6220/6050
AM Official	6075-85	6160-70
Kerb close		6150-60
Open int.	23,732	
Total daily turnover	5,446	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1129-30	1157-58
Previous	1102-3	1130-31
High/low		1158/1145
AM Official	1127-27.5	1156-57
Kerb close		1149-50
Open int.	109,713	
Total daily turnover	21,540	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2955-58	2913-14
Previous	2896-98	2854-55
High/low	2975/2972	2926/2895
AM Official	2974-75	2923-5
Kerb close		2910-11
Open int.	242,950	
Total daily turnover	139,155	

■ LME AM Official £/$ rate: 1.5831
LME Closing £/$ rate: 1.5863

Spot:1.5670 3 mths:1.5670 6 mths:1.5663 9 mths:1.5658

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Dec	137.15	+1.15	137.60	135.80	12,279	6,698
Jan	135.10	+0.80	135.40	135.00	1,209	259
Feb	133.65	+0.35	132.70	132.70	768	-
Mar	132.25	+0.25	132.90	131.40	28,280	9,215
Apr	129.85	-0.10	130.30	129.50	711	2
May	127.40	-0.50	128.50	127.40	2,812	109
Total					53,817	16,469

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	382.80-383.20	
Opening	383.00-383.40	
Morning fix	383.35	245.124
Afternoon fix	383.10	244.949
Day's High	383.70-384.10	
Day's Low	383.00-383.40	
Previous close	383.20-383.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.13	6 months	5.59
2 months	5.21	12 months	6.17
3 months	5.29		

Silver Fix	p/troy oz.	US cts equiv.
Spot	324.70	507.50
3 months	329.25	514.65
6 months	334.70	523.00
1 year	347.10	542.15

Gold Coins	$ price	£ equiv.
Krugerrand	385-388	246-249
Maple Leaf	393.70-396.15	
New Sovereign	90-93	58-61

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Dec	380.7	-1.3	383.1	379.7	15,329	27,171
Jan	382.4	-1.3	-	-	-	-
Feb	384.5	-1.8	387.0	383.7	72,340	38,622
Apr	388.5	-1.6	391.0	387.5	15,168	1,504
Jun	392.5	-1.6	394.9	391.5	18,869	2,615
Aug	396.8	-1.6	399.0	396.0	11,652	303
Total					172,690	71,557

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Jan	404.3	-5.1	411.0	403.0	13,927	3,122
Apr	408.9	-5.0	415.0	407.5	9,790	874
Jul	413.2	-5.0	417.0	413.2	1,969	15
Oct	417.7	-5.0	425.0	417.7	817	11
Jan	420.7	-5.0	-	-	12	-
Total					26,515	4,022

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Dec	153.85	-0.85	155.50	153.00	1,012	625
Mar	155.75	-0.36	157.75	155.25	5,550	581
Jun	156.75	-0.35	-	-	599	22
Sep	157.50	-0.35	-	-	96	-
Total					7,257	1,228

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Dec	489.6	-14.9	507.0	484.0	18,418	26,340
Jan	491.2	-15.7	505.0	505.0	93	18
Feb	494.3	-15.7	-	-	75,038	38,556
Mar	497.5	-15.7	515.5	492.0	7,078	2,945
May	503.4	-15.9	521.0	498.0	9,977	1,097
Jul	509.7	-16.0	527.0	506.0	4,143	376
Total					140,148	70,525

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	17.94	-0.11	18.03	17.85	92,029	38,135
Feb	17.93	-0.09	18.02	17.83	57,279	14,978
Mar	17.93	-0.07	17.93	17.85	33,484	4,826
Apr	17.90	-0.08	17.91	17.88	17,974	2,315
May	17.91	-0.05	17.91	17.88	15,518	2,132
Jun	17.86	-0.08	17.90	17.86	26,570	928
Total					370,829	73,094

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.98	-0.13	17.11	16.91	90,355	16,196
Feb	16.83	-0.13	16.86	16.80	38,433	7,926
Mar	16.73	-0.11	16.75	16.69	15,243	2,013
Apr	16.71	-0.07	16.71	16.62	7,038	404
May	16.66	-0.08	16.66	16.65	5,744	279
Jun	16.63	-0.07	16.63	16.61	5,327	190
Total					172,751	27,030

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	49.10	-0.85	50.10	48.90	11,143	16,508
Jan	49.55	-0.75	50.45	49.35	51,849	14,076
Feb	50.20	-0.70	50.42	50.10	27,399	3,214
Mar	50.25	-0.60	50.55	50.15	13,517	1,326
Apr	49.70	-0.50	49.80	49.70	9,627	1,108
May	49.45	-0.30	49.45	49.25	5,276	265
Total					148,322	37,098

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	147.25	-1.75	148.25	147.00	29,621	6,902
Jan	150.00	-1.75	150.75	150.00	25,180	5,657
Feb	152.25	-1.75	152.75	152.00	17,102	2,037
Mar	154.00	-1.00	154.25	153.00	9,920	877
Apr	153.50	-0.75	153.75	152.75	3,462	422
May	153.25	-0.25	153.75	152.00	944	107
Total					89,218	19,389

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	1.710	-0.060	1.770	1.705	22,612	14,494
Feb	1.755	-0.044	1.799	1.745	17,728	5,316
Mar	1.750	-0.032	1.765	1.750	14,335	2,376
Apr	1.720	-0.022	1.737	1.720	7,995	1,290
May	1.725	-0.020	1.740	1.725	7,974	1,386
Jun	1.735	-0.014	1.750	1.735	6,854	741
Total					133,256	28,081

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	54.80	-0.81	55.45	54.55	9,209	17,023
Jan	54.35	-0.57	54.80	54.25	27,657	9,628
Feb	54.65	-0.40	54.80	54.60	13,598	3,402
Mar	55.35	-0.25	55.40	55.20	7,167	1,174
Apr	58.50	-0.05	-	-	6,918	313
May	57.30	-0.25	57.30	57.30	2,749	351
Total					71,609	32,325

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	106.10	+0.65	106.10	105.80	1,844	63
Mar	107.35	+0.20	107.60	107.40	1,579	13
May	109.35	+0.20	109.50	109.40	1,657	172
Jul	111.25	+0.25	111.50	111.25	180	63
Sep	95.40	-	95.40	95.40	89	10
Nov	96.45	+0.05	96.55	96.40	778	31
Total					6,127	352

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	372/2	+7/6	373/4	359/4	7,078	7,165
Mar	384/4	+5/2	388/0	374/0	39,468	11,980
May	367/6	+3/4	370/0	361/6	5,856	935
Jul	338/4	+2/6	340/0	334/2	11,827	2,098
Sep	343/4	+1/4	344/0	341/0	547	47
Dec	356/0	+4/4	356/0	352/4	186	2
Total					64,771	22,227

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	213/0	+1/4	213/2	211/4	27,597	45,072
Mar	223/0	+0/4	223/4	221/6	113,465	34,877
May	229/4	+0/2	230/0	228/4	38,101	4,826
Jul	233/6	-	234/4	232/4	46,411	6,349
Sep	239/0	-	239/2	238/2	4,256	378
Dec	244/6	+0/2	245/0	243/0	22,539	1,692
Total					254,988	93,324

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	102.90	-	-	-	415	-
Mar	105.00	+0.25	-	-	134	-
May	107.00	+0.15	-	-	44	-
Sep	94.50	-	-	-	32	-
Nov	95.25	-	-	-	81	-
Total					706	-

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	563/4	-6/2	569/0	559/4	50,546	18,868
Mar	573/0	-6/2	578/0	569/6	31,767	4,007
May	581/2	-5/4	585/4	577/4	16,423	1,373
Jul	585/2	-5/6	589/4	582/0	24,234	2,108
Aug	587/0	-6/2	592/0	585/4	1,937	111
Sep	587/4	-6/4	593/0	587/0	1,158	12
Total					137,662	27,512

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	28.73	-0.49	29.00	28.53	17,074	7,176
Jan	27.68	-0.57	28.00	27.50	38,551	8,297
Mar	26.73	-0.44	26.90	26.60	28,981	3,680
May	25.70	-0.41	25.90	25.58	17,543	1,020
Jul	24.87	-0.44	25.10	24.85	10,716	1,500
Aug	24.52	-0.45	24.75	24.52	2,275	41
Total					121,386	22,447

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	156.6	-0.7	158.1	155.8	11,715	17,967
Jan	158.6	-0.8	160.2	157.6	32,526	19,335
Mar	161.9	-1.5	163.8	161.7	24,807	7,877
May	166.3	-1.0	167.9	165.8	12,359	1,301
Jul	171.1	-1.2	172.7	170.5	11,187	2,422
Aug	173.3	-1.3	174.5	172.7	2,709	276
Total					104,283	50,197

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	250.0	-	-	-	-	-
Apr	255.8	-13.6	268.0	252.6	1,359	228
May	282.5	-	-	-	2	-
Jun	250.0	-	-	-	-	-
Total					1,361	228

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	1913	+2	-	-	238	-
Dec	2000	+34	2000	1970	362	5
Jan	1910	+33	1910	1886	1,102	153
Apr	1800	+35	1800	1780	1,149	150
Jul	1526	+4	1530	1525	145	16
Jan	1636	+3	-	-	17	-
Total					3,018	324

	Close	Prev
BFI	1932	1919

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	914	-1	918	894	14,419	5,811
Mar	926	+2	935	912	43,701	8,261
May	931	+2	945	923	16,891	1,492
Jul	941	+1	956	935	7,297	533
Sep	952	+1	966	950	13,150	536
Dec	971	+1	985	964	10,260	351
Total					114,203	17,724

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1200	+3	1210	1186	725	230
Mar	1228	+3	1237	1206	47,256	16,567
May	1254	-1	1263	1237	10,336	2,548
Jul	1275	-6	1289	1260	4,027	498
Sep	1302	-3	1315	1302	1,679	254
Dec	1332	-3	1342	1320	5,307	259
Total					75,717	20,683

■ COCOA (ICCO) (SDR's/tonne)

Nov 29	Price	Prev. day
Daily	922.04	975.51

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	2853	-58	-	-	57	-
Jan	2853	-155	2965	2845	10,355	1,865
Mar	2804	-144	2899	2795	8,195	1,541
May	2778	-137	2855	2770	4,367	394
Jul	2763	-237	2818	2763	1,482	72
Sep	2751	-119	2810	2751	2,584	47
Total					28,349	3,919

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	157.15	-1.35	157.15	152.50	403	130
Mar	160.60	-1.40	161.40	156.50	17,899	5,791
May	163.15	-1.30	163.50	159.25	6,582	1,061
Jul	165.25	-1.25	165.25	161.50	2,589	194
Sep	166.25	-1.25	166.25	163.50	1,122	79
Dec	167.25	-1.50	167.60	164.70	982	93
Total					29,816	7,504

■ COFFEE (ICO) (US cents/pound)

Nov 30	Price	Prev. day
Comp. daily	154.08	155.51
15 day average	167.76	169.11

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	13.00	-	-	-	-	-
Mar	14.90	-0.02	-	-	370	-
May	14.95	-0.02	-	-	860	-
Jul	14.73	-	-	-	300	-
Total					1,530	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	408.80	-1.80	412.00	406.30	12,059	1,493
May	402.90	-1.80	404.80	399.50	4,657	662
Aug	392.70	-1.70	395.00	389.50	3,898	218
Oct	362.90	-2.50	363.80	362.00	1,615	17
Dec	358.10	-2.50	358.80	358.80	136	4
Mar	357.90	-3.20	357.80	357.80	199	4
Total					22,614	2,398

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	14.71	+0.01	14.86	14.52	101,978	20,865
May	14.71	+0.02	14.82	14.56	34,264	7,754
Jul	14.44	+0.01	14.52	14.28	22,526	2,779
Oct	13.63	+0.01	13.72	13.51	21,842	2,220
Mar	13.00	-0.12	13.16	13.00	5,901	970
May	12.73	-0.12	12.91	12.86	1,294	604
Total					189,490	35,315

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	77.30	+0.46	77.30	76.40	1,062	830
Mar	79.36	+0.31	79.45	78.50	31,385	10,248
May	80.45	+0.38	80.45	79.60	8,800	1,324
Jul	80.98	+0.38	81.00	80.06	5,530	369
Oct	73.15	-0.25	73.30	72.90	867	198
Dec	71.50	-0.10	71.50	71.10	3,942	455
Total					51,581	13,427

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	101.40	-3.95	106.20	100.20	13,289	1,529
Mar	105.70	-3.75	110.40	104.45	6,635	1,002
May	109.20	-3.50	113.10	108.00	1,945	13
Jul	112.70	-3.00	114.45	112.45	1,029	1
Sep	116.40	-2.40	119.20	119.20	1,958	282
Nov	116.90	-1.35	116.90	116.90	1,312	8
Total					26,886	2,818

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	67.425	+0.125	67.500	66.750	17,319	6,598
Feb	67.250	+0.100	67.300	66.475	24,767	6,527
Apr	68.625	-0.050	68.850	68.200	17,953	3,301
Jun	64.450	-0.025	64.475	64.000	6,049	396
Aug	62.725	-0.025	62.750	62.500	2,458	376
Oct	63.400	+0.050	63.425	63.100	981	22
Total					68,884	17,228

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	30.675	-0.900	31.250	30.400	9,338	3,599
Feb	34.400	-0.350	34.500	34.025	13,109	3,284
Apr	35.375	-0.300	35.500	35.050	6,522	914
Jun	40.675	-0.175	40.750	40.350	4,298	732
Aug	40.900	-0.025	41.000	40.650	973	95
Oct	38.975	+0.125	39.025	38.825	795	118
Total					35,971	8,808

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	36.250	-0.400	36.400	35.850	8,309	2,838
Mar	36.500	-0.100	36.625	36.050	1,348	291
May	37.625	-0.575	37.850	37.550	484	26
Jul	38.500	-0.300	38.800	38.400	387	28
Aug	37.450	-0.650	37.750	37.400	130	15
Feb	46.500	+0.500	46.500	46.500	6	6
Total					10,686	3,204

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1800	173	199	38	74
1850	141	171	54	94
1900	111	145	75	117
■ COPPER (Grade A) LME	Feb	May	Feb	May
2800	183	142	57	141
2850	152	120	76	168
2900	124	101	97	198
■ COFFEE LCE	Jan	Mar	Jan	Mar
3000	60	141	207	337
3050	48	126	245	374
3100	38	116	285	412
■ COCOA LCE	Mar	May	Mar	May
950	31	47	55	66
975	23	38	72	82
1000	17	31	91	100
■ BRENT CRUDE IPE	Jan	Apr	Jan	Apr
1600	108	120	1	49
1650	62	92	8	72
1700	30	66	28	96

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)

		+or-
Dubai	$15.94-6.04z	-0.030
Brent Blend (dated)	$16.93-6.95	-0.030
Brent Blend (Jan)	$17.03-7.05	-0.030
W.T.I. (1pm est)	$18.00-8.02z	+0.010

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$168-170	
Gas Oil	$149-150	-1
Heavy Fuel Oil	$96-98	-1.5
Naphtha	$178-181	
Jet fuel	$167-169	-2
Diesel	$153-154	-2

Petroleum Argus. Tel. London (071) 359 8792

■ OTHER

Gold (per troy oz)♣	$383.00	-0.35
Silver (per troy oz)♣	507.5c	-4.0
Platinum (per troy oz.)	$409.50	-0.50
Palladium (per troy oz.)	$154.60	+0.70
Copper (US prod.)	140.0c	+4.0
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	15.07r	-0.04
Tin (New York)	284.5c	+5.0
Cattle (live weight)†	117.56p	+1.98*
Sheep (live weight)†♠	108.53p	+1.43*
Pigs (live weight)	78.42p	+2.09*
Lon. day sugar (raw)	$353.90	-12.40
Lon. day sugar (wte)	$419.00	-11.00
Tate & Lyle export	£341.00	-8.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£132.0v	
Wheat (US Dark North)	£165.0v	
Rubber (Jan)¥	92.00p	+0.50
Rubber (Feb)¥	91.50p	-0.50
Rubber (KL RSS No1 Jul)	353.0m	+1.5
Coconut Oil (Phil)§	$705.0y	-15.0
Palm Oil (Malay.)§	$755.0u	-7.5
Copra (Phil)§	$474.0q	
Soyabeans (US)	£168.0	
Cotton Outlook'A' Index	81.20c	+0.55
Wooltops (64s Super)	464p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. u Nov/Dec. u Dec.-z Jan. q Dec/Jan ¥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week © Prices are for previous day. † - 14/11/94 Corrected figure for WTI $17.90-7.92

Cotton

Liverpool- Spot and shipment sales amounted to 395 tonnes for the week ended November 25 against none in the previous week. Improved demand brought moderate purchases mainly in American and Cameroon descriptions. Users also wanted CIS varieties.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Nov 30	Nov 29	month ago	year ago
2150.8	2148.3	2105.0	1621.4

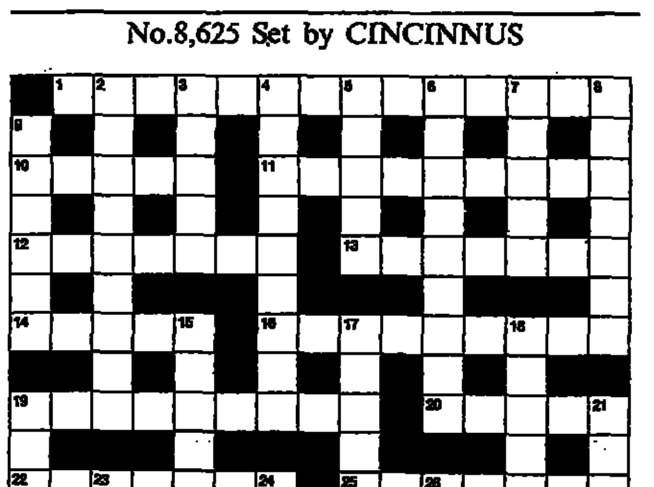
■ CRB Futures (Base: 1967=100)

Nov 29	Nov 28	month ago	year ago
230.59	231.72	233.63	217.99

JOTTER PAD

CROSSWORD

No.8,625 Set by CINCINNUS



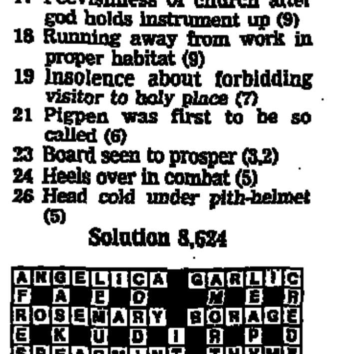
ACROSS

1 Old city firm in pole position (14)
10 Irish house with yen for paper? (5)
11 Likenesses showing person's head or characteristics (9)
12 Disgusting din about award (7)
13 While taking tea-break inside, get whole-meal (7)
14 Pole held in the greatest affection (5)
16 Firearms salesman meeting consumers (9)
19 Knowing in advance about social centre here (9)
20 The medicine goes down (5)
22 Serving man in pub is reasonable (7)
25 About the flower supply (7)
27 This, chewed up, might give torso pain (3-6)
28 Part in production (5)
29 Synthetic cream, synthetic team (10,4)

DOWN

2 Start in Rio, eating nuts (9)
3 Authority, for example (sic) (3-2)
4 Jonathan's producer, perhaps (5-4)
5 Cast heard from beginning to end (5)
6 Child tender and fragile is under ma (9)
7 No tip? Contrariwise (5)
8 German city with its leaders forming a religious fraternity (7)
9 An academic is a handsome chap (6)
15 For cleaner coal fetch scuttle (4-5)
17 Peevishness of church after god holds instrument up (9)
18 Running away from work in proper habitat (9)
19 Insolence about forbidding visitor to holy place (7)
21 Pigpen was first to be so called (6)
23 Board seen to prosper (3,2)
24 Heels over in combat (5)
26 Head cold under pith-helmet (5)

Solution 8,624



LONDON STOCK EXCHANGE

MARKET REPORT

Programme trade activity boosts equity market

By Steve Thompson

A burst of strong overseas buying, via a series of heavyweight programme trades, put the final touches to an unexpectedly buoyant trading session in London's equity market.

The rash of overseas buying took the market completely by surprise. Earlier in the session share prices had wilted in the face of a general stand-off by the big institutions to what was almost universally described as a disappointing and uninspiring Budget.

The FT-SE 100 Index closed at the day's best level, up 20.3 at 3,081.4, with many dealers adopting the view that this morning could well see an extension of yesterday's excellent late performance.

The flurry of demand was not confined to the market leaders, with the second-liners sharing in the late upsurge, albeit on a slightly smaller scale. The FT-SE Mid 250 Index finished 8.1 higher at 3,497.3. Helping to fuel the market advance was a strong opening by US Treasury bonds and Wall Street, a move which took many market observers by surprise.

The Dow Industrial Average raced higher in early trading, adding more than 20 points, in spite of more economic data pointing to continuing inflationary pressures in the US economy. These included a higher than expected upward revision of third-quarter gross domestic product and a sharp increase in the Chicago Purchasing Management Index.

Dealers expected such inflationary indicators to depress US markets, coming so soon after the startling increase in the consumer confidence index announced late on Tuesday.

The big programme trade activity gave a strong boost to turnover levels, which earlier in the day had looked like producing no more than a routine session's business. Volume reached a respectable 682.8m shares, of which non-Footsie stocks accounted for 59 per cent of the total. But levels of customer business remained disappointing. On Budget Day retail business only just topped the £1bn mark.

The trading session began very quietly, with share prices marked down at the outset after the generally restrained press response to the Budget. The FT-SE 100 opened around three points easier but gradually began to creep higher within the hour, with dealers noting minor bouts of support in selective areas.

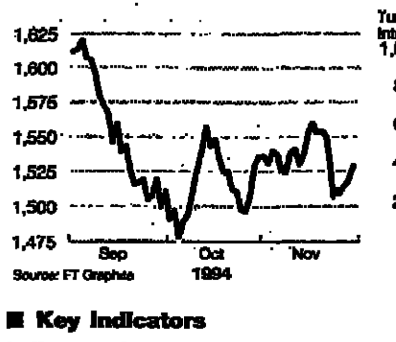
Among these were the electricity stocks, which built on Tuesday's late gains in the absence of the much-feared windfall profits tax or any moves to block special dividends or share buy-backs. Buying interest faltered in mid-morning, however, and the Footsie retreated over the lunchtime period and early afternoon before staging a strong run in the last hour of trading as the programme trades were said to have been activated.

Goldman Sachs, the influential US investment bank, was said to have executed the largest of three big programmes, a balance trade worth £150m each way, while NatWest Securities and S.G. Warburg were also said to have executed large programmes.

A leading marketmaker at one of the integrated UK securities houses said demand triggered by the programmes would probably boost London at the outset today, although he stressed that Wall Street's performance would be crucial.

Around the various sectors, bank shares were in the forefront of the market's advance, but food retailers came under sustained selling pressure as Argyll Group upset the market in revealing a decline in like-for-like sales in the first six months of its financial year. Other supermarket groups, including market giants such as J. Sainsbury and Tesco, also lost ground. Glaxo was one of the day's big casualties, the shares falling sharply in the wake of the resignation of one of its highly regarded directors and on talk of increased competition.

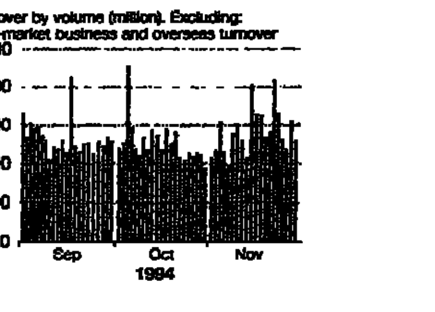
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3081.4	+20.3	FT Ordinary index	2365.3	+17.9
FT-SE Mid 250	3497.3	+8.1	FT-SE-A Non Fins p/e	18.48	(18.40)
FT-SE-A 350	1542.9	+8.6	FT-SE 100 Fut Dec	3094.0	+26.0
FT-SE-A All-Share	1528.12	+8.03	10 yr Gilt yield	8.53	(8.56)
FT-SE-A All-Share yield	4.00	(4.02)	Long gilt/equity yld ratio:	2.16	(2.16)

Best performing sectors		Worst performing sectors	
1 Gas Distribution	+2.1	1 Retailers, Food	-1.2
2 Electricity	+1.7	2 Engineering, Vehicles	-1.1
3 Telecommunications	+1.6	3 Other Services & Bsns	-1.1
4 Utilities	+1.5	4 Breweries	-0.7
5 Banks	+1.4	5 Health Care	-0.6

Sales dip weakens Argyll

Food retailer Argyll Group tumbled 17 to 255p, the day's biggest Footsie retreat, after a disappointing statement confirmed fears that the group was losing market share.

A hefty 13m shares were dealt, marking Argyll's busiest day for around five months. Traders also said a large overhanging line of stock had depressed the shares further.

The group's interim profits were up by £8m to just below the market consensus of £206.8m. But the statement on current trading, indicating that same store sales at Argyll's Safeway chain had fallen 0.8 per cent in the first six weeks of the year, was the particular disappointment. Analysts were also disappointed by the lack of more detailed information on the review of the business started 18 months ago.

S.G. Warburg was said to have been one of the brokers downgrading full-year profits expectations, with rivals of the house suggesting it had reduced its forecast by around £10m to £390m. Analyst Mr Neil Currie was not prepared to confirm the figures but said: "The current trading situation is not good and has to be addressed. In the meantime, some of the reasons to be bullish about Argyll are postponed rather than eliminated."

Glaxo nervous

Pharmaceuticals group Glaxo was another Footsie casualty as the share price reacted to a key resignation and competition worries in the US.

Initially, the shares fell on news that Dr Franz Humer, the chief operating director, is leaving the company to take up another job in the industry.

Analysts said that the news was a disappointment as Dr Humer is highly regarded within the industry, but there had been no suggestions of a boardroom rift. Dr Humer is rumoured to be going to Sandoz or Roche.

The blow to sentiment was increased by market focus on a key US Food and Drug Administration (FDA) advisory meeting on Losec, the stomach ulcer drug of Swedish rival Astra.

The meeting, scheduled for today and tomorrow, is expected to recommend that there is no need for side-effect warnings to accompany the drug, which is the principal competitor to Zantac, Glaxo's headline drug. If the warnings are removed then Losec can be approved for long term use. Glaxo shares were down 13 at one stage and closed 8½ off at 616½p.

Motor parts group T&N continued to wilt under the impact of cash drain and rights issue worries, sliding a further 20 to 166p in active trading. At 13m shares, turnover was 6m more than on Tuesday when the company disclosed an unexpected £100m jump in asbestos-related provisions.

According to NatWest Securities, the extra provisions plus any takeover of German pistons group Kolbenschmidt – T&N's option on a 52 per cent stake in the company runs out next March – will increase group net borrowings as a proportion of net worth to around 100 per cent, without taking account of possible goodwill write-offs.

Accordingly any rights issue is likely to be sizeable, possibly a one-for-three, said the broker. The shares have now tumbled 25 per cent in two days.

Cement producers mostly breathed a sigh of relief at the size of the fines imposed by the European Union on competition infringement grounds, with Blue Circle gaining 3 at 304p in 2.1m turnover and Rugby adding a penny at 123p.

The sector has been weak in the run-up to the EU's verdict, with most commentators braced for fines of up to 6 per cent of European turnover. In the event, Blue Circle faces a fine of 4.6 per cent of sales, or £12.3m.

This represents some 5 per cent of the middle range of brokers' estimates for Blue Circle's 1994 pre-tax profits. The profits cost is also around 5 per cent at Rugby, while CRH – down a penny at 341p – faces a 2 per cent cost.

Regional electricity companies rose sharply as the market celebrated the lack of new taxes for the sector in the Budget.

Worries about a windfall tax, fears that the government may reduce tax credits on share buy backs and recent political uncertainty had combined to cast a shadow over the sector.

Market watchers expect a strong performance from the sector as the results season opens today, with bumper dividend increases of around 20 per cent expected.

Seeboard, which reports interims today, was among the strong performers yesterday and the shares jumped 19 to 425p. Northern climbed 28 to 838p and Eastern advanced 18 to 766p, while Yorkshire gained 17 at 730p.

The news in the budget that the government plans to introduce a tax on landfill hit water stocks with an exposure to the waste sector. Wessex Water fell 8½ to 289½p, while Severn Trent eased 6 to 534p and Northumbrian relinquished 8 to 692p.

Shanks & McEwan fell 5 to 84p and Leigh Interests 5 to 169p on worries over the new tax.

Clearing bank shares rebounded following weakness on Tuesday when the sector was unsettled by pre-budget worries. National Westminster, up 14 to 521p Barclays, 13½ to 608½p and Lloyds 8½ to 574½p.

Concern that discount houses would lose out following the Budget announcement establishing an open market for gilt repos. Cater Allen fell 6 to 483p and King & Shaxson shed a penny to 114p.

Insurer General Accident slipped a penny to 533p. Smith New Court are sellers on the argument that the premium to net asset value will remain too high unless US Treasuries recover.

News and electronic information service Reuters gained 10 to 491p with support from news that the company has established a new international division to market and develop insurance information.

Chemicals leader ICI jumped 16 to 762p on the combination of a firm dollar and the removal of a line of stock which had been overhanging the share price.

Telecoms shares were active with BT trading 7.5m shares and improving 5½ to 379½p following a buy recommendation from Hoare Govett. Cable and Wireless gained 7 to 386p in 2.4m turnover.

Nervous trading in Grand Metropolitan ahead of today's final figures saw the shares surrender 5 to 383p. Property Group MEPC is another stock reporting final figures today. Dealers were positive and the shares hardened 3 to 403p.

The market appeared to have discounted an increase in duties on alcohol thus shares in drinks group Bass gave up 11 to 528p.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 20

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (15).
DISTRIBUTORS (2) Tribst, Wilshaw, DIVERSIFIED INDLS (2) Mitsubishi, Whitecroft, ENGINEERING (1) VSEL Consortium, EXTRACTIVE INDS (1) Glencar Expln, INVESTMENT TRUSTS (1) JF Asia Select, LEISURE & HOTELS (1) London Clubs, OIL EXPLORATION & PROD (1) Crusader, PHARMACEUTICALS (1) Celltech, SUPPORT SERVS (2) Saga, Servisair, TRANSPORT (1) GRT Bus, AMERICANS (1) Gillette, SOUTH AFRICANS (1) Anglo Am. Inds.
NEW LOWS (89).
GILTS (5) BREWERIES (1) Fuller S.T.A., BUILDING & CNSTRN (3) AMEC, Crest Nichol. Westbury, BLDG MATLS & MCHTS (5) Bardon, Cape, Haywood Williams Prf., Lilleshall, Tarmac, CHEMICALS (3) Hickson Intl., Manders, Yorkshire, DISTRIBUTORS (5) Appleyard, Diploma, Young (H.), DIVERSIFIED INDLS (1) Pacific Dunlop, ELECTRNC & ELECT EQUP (2) CML Micro, Orbis, ENGINEERING (3) Molins, Triplex Lloyd, Wagon Industrial Pf, ENG. VEHICLES (1) T&N, EXTRACTIVE INDS (2) Bakyrchik Gold, Dominion Mining, HEALTH CARE (3) APTA Healthcare, M.L. Labs, UniChem, INVESTMENT TRUSTS (8) China Inv Tst, City of Oxford Wnts, Dartmoor 6¾pc RPI-Lk Db 2005, Fidelity Special I-L Uns, German Smlr Cos Wnts, Hong Kong Wnts, Investors Capital, Templeton Latin Amer Wnts, LEISURE & HOTELS (1) Mandarin Oriental Intl, MEDIA (3) Gold Greenless Trott, Sunset & Vine, Trinity Ind, OIL EXPLORATION & PROD (2) Com-Tek Res, Evergreen Res, OTHER FINANCIAL (2) Towry Law, Tyndall Australia Opts, OTHER SERVS & BUSNS (1) Leigh Ints, PRTNG, PAPER & PACKG (2) AG, API, PROPERTY (4) Brit Land 8¾pc Prf, Daejan, Green Prop, HK Land, RETAILERS, FOOD (2) Dairy Farm, Geest, RETAILERS, GENERAL (2) Liberty, Upton & Southern, SUPPORT SERVS (5) Johnson Cleaners, Mitys, Pegasus, Prime People, Sketchley, TEXTILES & APPAREL (1) Rexmore, TRANSPORT (2) London & Overseas Freighters, Mayne Nickless, AMERICANS (1) Quaker Oats, CANADIANS (1) Derlan Inds.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures extended their recent rally to five days, the FT-SE 100 December contract moving back near to 3,100 in improving trading volume, *writes Jeffrey Brown.*

December stood at 3,093 at the close of pit trading for a rise of 25 points. Over the past five sessions the contract has advanced 69 points.

At the official close the premium to the cash market was 13 points – more than seven points over fair value – but at times during the day the premium topped 20 points, encouraging a certain amount of arbitrage business.

Although volume remained below the level at which most traders are happy to run a book, there was a notable increase to 12,828 lots, from under 10,000 on Tuesday. Most real business was on the buying side and dealers said sentiment showed a clear improvement.

There was some buying for next year, which helped to underpin the better mood, with around 1,400 of the day's trades counting as roll-over into the March contract.

Option trading remained subdued, with 27,102 contracts dealt, against 25,991 on Tuesday. Call and put trading was again fairly evenly matched. FT-SE and Euro FT-SE turnover accounted for almost 17,000 lots. British Gas was the most active stock option at 1,145 lots dealt. Banks were busy, notably Barclays and HSBC.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3063.0	3094.0	+26.0	3097.0	3062.0	15068	49533
Mar	3077.5	3109.0	+26.0	3110.5	3077.5	1967	11891
Jun	3114.0	3127.0	+23.0	3123.0	3114.0	175	145

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3495.0	3500.0	-	3495.0	3495.0	7	2553
Mar		3535.0	-			0	2797

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3505.0	-	-	-	-	287

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3080) £10 per full index point

	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P
Dec	201½	5½	155½	9½	114	17½	75	31	45	54	23	83	11	123	4½	170
Jan	228½	26	189	37	153	50½	119½	67½	89	89½	64½	115½	42½	123	29½	185
Feb	246½	35	210	49	173½	63½	142½	82	112½	103½	87	128½	165½	158	149½	193
Mar	256	51½	218½	64	184½	79½	155½	100	127½	122½	105	149½	84	178½	65½	211
Jun†	292	73½			228½	106			166	146½			123½	202½		

Calls 6,624 Puts 5,767

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P	3275 C	3275 P
Dec	176	7	132	13	92½	23½	60	41	33	64	16	97	6	138½	2	182½
Jan	204	29	167	41	133	57	103½	76½	78	101	57	129	40	162	27½	198½
Feb	224	39			155	88½			99½	111½			59½	170		
Mar	233	52½			166	83½			111½	127			69½	183½		
Jun†	275	80			212	113			157	155			112	207		

Calls 1,309 Puts 2,888 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3400		3450		3500		3550		3600	3650	3700	3750
Dec			86½	38	57	48½	34½	75				

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,400	336	+1
ASDA Group†	3,400	65¾	+¼
Abbey National†	2,700	419½	+8½
Albert Fisher	1,500	48	+1
Allied Domecq†	1,600	561	-4
Anglian Water	2,200	491	+7
[illegible]			
Courtaulds†	2,100	436	+1
Dalgety	113	425	-1
De La Rue†	286	1019	+20
Dixons	2,900	183	-2
Eastern Elec.†	1,200	802½	+19½
East Midland Elec.	1,400	760	+18
Electrocomps	707	473	+8
Eng China Clays	2,700	343	-3
Enterprise Oil†	547	385	+5
Eurotunnel Units	780	250	+4
FKI	833	161	+1
Fisons	1,900	122	
Foreign & Col. I.T.	537	134	
Forte†	7,600	236	+6
Gen Accident†	425	533	-1
General Elect.†	4,500	276½	+1½
Glaxo†	6,200	616½	-8½
Glynwed	951	345	+2
Granada†	4,700	521½	+2½
Grand Met.†	5,000	383	-5
GUS†	2,500	561	+10
GRE†	1,100	183	+2
GKN†	498	623½	+3½
Guinness†	2,100	456	+1
HSBC (75p shs)†	2,800	717	+1
Hammerson	362	326	-1
Hanson†	10,000	235¼	+1¼
Harrisons Crosfield	2,800	151	
Hays	558	299	+4
Hillsdown	2,800	165	-2
IMI	992	320	
ICI†	6,400	762	+16
Inchcape†	1,400	[illegible]	+9½
Johnson Matthey	312	558	+2
Kingfisher†	3,600	467	+3
Kwik Save	559	558	-2
Ladbroke†	5,200	160	-1
Land Securities†	1,500	592	+4
Laporte	506	700	+2
Legal & General†	1,400	435	+5
Lloyds Abbey	982	328	+5
Lloyds Bank†	1,900	574½	+8½
LASMO	775	146½	-½
London Elect.	1,700	692	+15
Lonrho	10,000	157½	+2½
Lucas	1,600	206½	+1½
MEPC†	933	403	+3
MFI	447	137	
Manweb	414	791	+20
Marks & Spencer†	2,400	408½	+5½
Midlands Elec.	1,400	772½	+27½
Morrison (Wm.)	25	125	-1
NFC	1,200	170	
NatWest Bank†	2,900	521	+14
National Power†	2,700	485	+3
Next	3,800	253	-1
North West Water†	430	542	+7
Northern Elect.	1,400	838	+28
Northern Foods†	3,800	206	+1
Norweb	580	795	+19
Pearson†	1,300	614	+13
P & O†	807	624	+5
Pilkington	5,500	167½	-3½
PowerGen†	1,800	544	
Prudential†	2,900	321	+5
RMC†	1,200	899	+8
RTZ†	3,200	845	+9
Racal	741	225	+4
Rank Org.†	3,000	412	-3
Reckitt & Colman†	1,200	560	+5
Redland†	1,000	473	+1
Reed Intl.†	1,100	798	
Rentokil†	2,100	233½	-2
Reuters†	5,500	491	+10
Rolls Royce†	4,500	178½	+½
Ryl Bk Scotland†	433	420	+2
Royal Insurance†	2,000	294½	+2½
Sainsbury†	3,300	417	
Schroders†	384	1453	+3
Scottish & New.†	531	517	
Scot. Hydro-Elec.	510	327	+6
Scottish Power†	834	353	+4
Sears†	2,700	109½	+2½
Sedgwick	1,100	151	
Seeboard	1,000	425	+19
Severn Trent†	2,200	534	-6
Shell Transport†	3,600	716	+9
Siebe†	112	560	+1
Slough Ests	1,700	221	+1
Smith (W.H.)	1,200	447	-1
Smith & Nephew†	1,200	151½	+½
SmKl Beecham†	5,600	424	-1
SmKl Beecham Uts.†	4,600	391	+3
Smiths Inds.	333	452	
Southern Elect.†	1,800	785	+19
South Wales Elec.	683	791	+17
South West Water	1,100	491	-3
South West. Elec.	447	778	+25
Southern Water	414	556	-4
Standard Chartd†	1,400	223	+5
Storehouse	2,300	279	+1
Sun Alliance†	2,100	323	+2
T&N	15,000	166	-20
TI Group†	1,390	376	
TSB†	2,900	229½	+1½
Tarmac	9,200	122½	-1½
Tate & Lyle	527	[illegible]	

FT - SE Actuaries Share Indices — The UK Series

	Nov 30	Day's chge%	Nov 29	Nov 28	Nov 25	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3081.4	+0.7	3061.1	3047.1	3033.5	3233.2	4.18	7.14	16.55	117.76	1171.83
FT-SE Mid 250	3497.3	+0.2	3489.2	3490.0	3480.3	3565.6	3.61	5.88	20.48	124.54	1311.68
FT-SE Mid 250 ex Inv Trusts	3492.7	+0.2	3485.1	3489.0	3481.0	3584.9	3.78	6.38	19.04	129.95	1307.62
FT-SE-A 350	1542.9	+0.6	1534.3	1528.9	1522.7	1608.7	4.05	6.86	17.30	58.07	1200.56
FT-SE SmallCap	1769.74	.....	1769.10	1765.85	1762.70	1783.16	3.36	4.89	25.39	52.97	1379.91
FT-SE SmallCap ex Inv Trusts	1737.39	.....	1737.39	1735.27	1732.45	1734.73	3.56	5.56	23.17	54.78	1358.92
FT-SE-A ALL-SHARE	1528.12	+0.5	1520.09	1514.98	1509.03	1588.91	4.00	6.72	17.70	56.72	1209.33

■ FT-SE Actuaries All-Share

	Nov 30	Day's chge%	Nov 29	Nov 28	Nov 25	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2708.34	+0.8	2686.53	2681.51	2655.27	2417.30	3.51	5.05	25.04	89.83	1093.41
12 Extractive Industries(4)	3807.67	+0.9	3774.24	3778.74	3762.16	3380.80	3.37	5.39	22.95	98.62	1050.70
15 Oil, Integrated(3)	2685.03	+0.8	2662.51	2631.41	2626.97	2378.30	3.62	5.59	22.25	96.44	1108.81
16 Oil Exploration & Prod(11)	1867.21	+0.3	1861.87	1847.30	1838.71	1779.20	2.63	‡	‡	38.03	1080.34
20 GEN MANUFACTURERS(267)	1858.34	+0.3	1853.52	1850.21	1841.64	1853.40	4.18	5.29	22.92	71.47	952.44
21 Building & Construction(33)	1011.79	-0.2	1013.91	1023.03	1022.02	1178.80	3.85	5.71	23.16	36.70	797.78
22 Building Matls & Merchs(32)	1820.50	-0.3	1825.11	1836.32	1821.96	2009.30	4.09	5.37	22.56	71.16	864.28
23 Chemicals(23)	2275.61	+1.0	2252.13	2240.91	2240.45	2241.60	4.15	4.64	26.90	91.47	1015.05
24 Diversified Industrials(16)	1761.07	+0.1	1760.15	1743.72	1732.85	2028.90	5.32	5.23	22.98	82.92	905.80
25 Electronic & Elect Equip(34)	1850.80	+0.7	1837.93	1836.57	1826.18	2022.40	4.08	6.82	17.47	61.88	907.28
26 Engineering(71)	1826.16	+0.3	1820.27	1818.28	1805.34	1731.60	3.32	5.42	21.67	58.97	1051.48
27 Engineering, Vehicles(12)	2238.29	-1.1	2263.29	2320.87	2290.88	1944.80	4.47	1.54	80.00†	92.54	1094.79
28 Printing, Paper & Pckg(26)	2821.05	+0.9	2795.58	2792.30	2780.95	2590.20	3.08	5.51	21.13	81.25	1114.33
29 Textiles & Apparel(20)	1562.86	+0.6	1553.77	1540.46	1550.58	1880.80	4.31	6.36	20.38	63.82	893.35
30 CONSUMER GOODS(97)	2732.28	-0.2	2738.21	2730.58	2718.42	2880.80	4.41	7.37	15.73	114.03	946.77
31 Breweries(17)	2210.11	-0.7	2226.49	2196.07	2183.55	2222.40	4.30	7.88	15.37	67.40	982.94
32 Spirits, Wines & Ciders(10)	2715.63	-0.5	2730.11	2721.22	2711.31	2872.40	4.14	7.14	16.15	102.20	914.36
33 Food Manufacturers(23)	2271.22	+0.1	2268.96	2260.57	2251.43	2371.70	4.34	7.76	15.26	96.22	962.97
34 Household Goods(13)	2312.11	+0.6	2299.18	2286.54	2301.04	2654.20	3.94	7.85	15.36	89.88	837.30
36 Health Care(21)	1572.19	-0.6	1581.04	1583.29	1588.05	1727.30	3.21	3.42	41.12	49.70	916.82
37 Pharmaceuticals(12)	3084.41	-0.4	3097.35	3099.59	3078.22	3154.60	4.37	6.98	16.57	133.07	989.44
38 Tobacco(1)	3749.92	+0.9	3716.37	3707.98	3699.59	4405.60	5.79	9.17	11.71	217.07	855.39
40 SERVICES(219)	1917.66	+0.4	1909.95	1903.49	1896.25	1966.50	3.27	6.60	18.27	58.00	946.62
41 Distributors(30)	2550.94	+1.1	2522.22	2511.17	2518.44	2755.30	3.75	7.24	16.35	91.64	890.71
42 Leisure & Hotels(25)	2095.53	+0.6	2083.16	2075.18	2081.91	1941.20	3.37	5.18	22.58	57.69	1036.05
43 Media(39)	2893.21	+0.9	2866.89	2852.11	2842.06	2781.00	2.42	5.20	22.42	70.90	1007.19
44 Retailers, Food(16)	1739.18	-1.2	1759.48	1750.84	1743.02	1599.70	3.77	8.12	13.45	60.63	1046.69
45 Retailers, General(45)	1610.99	+0.9	1597.35	1592.04	1586.39	1819.30	3.31	7.07	17.65	52.83	887.37
48 Support Services(41)	1512.46	.....	1511.94	1511.84	1507.50	1633.60	2.83	6.51	18.09	39.08	923.90
49 Transport(16)	2262.46	+0.3	2255.77	2255.03	2245.09	2433.10	3.76	6.24	18.89	72.24	893.61
51 Other Services & Business(7)	1236.50	-1.1	1250.07	1253.23	1250.12	1177.40	4.20	3.30	45.37	28.63	1064.67
60 UTILITIES(36)	2390.67	+1.5	2355.10	2345.79	2340.22	2542.90	4.50	7.82	15.38	94.45	929.03
62 Electricity(17)	2515.06	+1.7	2472.40	2485.84	2474.78	2209.60	3.72	9.85	12.16	111.39	1057.87
64 Gas Distribution(2)	2047.75	+2.1	2006.17	1967.67	1958.07	2243.50	5.85	‡	‡	119.82	961.81
66 Telecommunications(4)	1972.62	+1.6	1940.92	1927.15	1931.31	2356.70	4.31	7.86	15.29	53.37	842.58
68 Water(13)	1787.54	....	1788.31	1786.96	1771.67	1854.10	5.59	13.67	7.96	80.81	899.04
69 NON-FINANCIALS(637)	1649.08	+0.5	1641.59	1635.67	1629.53	1698.36	3.99	6.50	18.48	60.63	1172.69
70 FINANCIALS(104)	2176.13	+0.9	2155.66	2152.39	2142.96	2391.50	4.46	8.88	12.91	92.06	867.04
71 Banks(10)	2890.37	+1.4	2851.58	2851.70	2830.11	2988.80	4.18	9.82	11.65	116.39	869.01
73 Insurance(17)	1221.03	+0.5	1215.30	1209.78	1210.86	1465.20	5.54	10.00	11.40	62.67	843.95
74 Life Assurance(6)	2380.97	+1.2	2352.63	2335.20	2321.82	2843.50	5.37	7.83	15.57	127.82	921.46
75 Merchant Banks(6)	2831.88	+0.1	2829.36	2786.78	2787.46	3164.60	3.67	9.84	11.83	103.78	860.10
77 Other Financial(24)	1845.40	-0.1	1846.47	1850.40	1843.61	1774.60	3.95	8.48	14.19	67.63	992.00
79 Property(41)	1398.06	+0.1	1396.45	1399.55	1404.83	1775.40	4.40	4.66	26.88	51.59	805.36
80 INVESTMENT TRUSTS(124)	2742.29	+0.3	2734.01	2717.78	2702.65	2743.00	2.28	1.95	51.37	59.98	924.46
89 FT-SE-A ALL-SHARE(865)	1528.12	+0.5	1520.09	1514.98	1509.03	1588.91	4.00	6.72	17.70	56.72	1209.33

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3056.7	3060.9	3074.9	3075.2	3069.3	3068.4	3067.6	3070.9	3080.2	3081.4	3058.4
FT-SE Mid 250	3488.8	3491.2	3492.7	3494.1	3492.7	3493.2	3490.5	3491.4	3494.3	3497.3	3487.9
FT-SE-A 350	1534.3	1537.9	1540.3	1542.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks	[illegible]											

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Allied Domecq	550	20½	34	42	13½	21½	31
(*561)	600	4	13½	21	49½	52½	62½
Argyll	240	18	25½	31	4	9½	14½

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Hanson	220	18½	21½	24	4	8	11
(*235)	240	7	11½	14	13	17½	21½
Lasmo	140	13	17	20	4½	7½	8

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	15	48	7
Other Fixed Interest	0	1	13
Mineral Extraction	63	51	82
General Manufacturers	132	102	394
Consumer Goods	37	41	109
Services	83	81	327
Utilities	27	8	8
Financials	118	42	204
Investment Trusts	105	34	326
Others	49	37	33
Totals	629	445	1503

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	November 21	Expiry	February 23
Last Dealings	December 2	Settlement	March 9

Calls: Air Lon., Amstrad, Lon. Intl., Signet, Sycamore, Verson Intl., VideoLogic. Put: Verson Intl. Puts & Calls: Aviva Pet.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	16.8	88	70	Abtrust Latin Am	84		-	-	-	-
-	F.P.	1.92	63	48	Do Warrants	48		-	-	-	-
-	F.P.	11.7	194	180	♣Adare Prntg	194	+2	†Q28%	8.1	1.4	11.3
150	F.P.	81.0	151	145	Ashbourne	151		WN3.0	3.1	2.5	13.9
100	F.P.	66.4	93	85	BZW Commodities	85	-½	-	-	-	-
-	F.P.	5.94	47	37	Do. Wrts	38		-	-	-	-
-	F.P.	50.1	104	65	♣Calluna	93		-	-	-	-
280	F.P.	30.3	287	280	Churchill China	285		RN9.86	2.2	4.3	13.0
100	F.P.	20.4	130	101	Euclidian	102		-	-	-	-
141	F.P.	23.5	143	143	Eurovein	143		WN6.2	1.8	5.4	11.4
-	F.P.	487.0	495	485	Fidelity Spec Units	487		-	-	-	-
-	F.P.	67.2	176	108	Filtronic C'tek	160	-1	RN0.75	2.6	0.6	53.8
100	F.P.	11.1	101	100	Finsbury Smlr C	101		-	-	-	-
$10	F.P.	37.5	625	615	First Russian Fr	625		-	-	-	-
-	F.P.	3.30	280	220	Do. Warrants	275		-	-	-	-
100	F.P.	29.8	104	98½	For & Col Emrg C	104		-	-	-	-
100	F.P.	30.6	102	98	Hoare Govett 1000	102		-	-	-	-
80	F.P.	10.9	83	83	Hydro Intl.	83		RN-	-	-	33.8
-	F.P.	29.1	100	90	INVESCO Korea C	97		-	-	-	-
180	F.P.	169.8	223	205	Irish Permanent	223		uN9.0	2.9	5.4	7.8
215	F.P.	69.3	232	229	JJB Sports	231		RN6.0	2.4	3.2	14.1
100	F.P.	42.0	94	84	Matheson Lloyds	84	-1	-	-	-	-
-	F.P.	2.20	30	21	Do. Warrants	22	-1	-	-	-	-
120	F.P.	69.4	144	120	SeaPerfect	141	-2	-	-	-	-
115	F.P.	235.9	132½	117	TLG	132½	+2½	WN3.5	2.0	3.3	19.0
170	F.P.	19.4	173	165	Tele-Cine Cell	165		RN5.44	2.2	4.1	11.4
182	F.P.	1,550.1	188	185½	Telewest	186		-	-	-	-
100	F.P.	17.6	102	102	Wellington Un.	102		-	-	-	-

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
77	Nil	30/12	3pm	2pm	Apollo Metals	2pm	
295	Nil	5/1	60pm	34pm	Laird	44pm	+1
37	Nil	3/1	5pm	3pm	OMI	3pm	
85	Nil	23/12	15pm	5pm	Pressac	5pm	
285	Nil	6/1	57½pm	38pm	Seton Health.	38pm	-3

FINANCIAL TIMES EQUITY INDICES

	Nov 30	Nov 29	Nov 28	Nov 25	Nov 24	Yr ago	*High	*Low
Ordinary Share	2365.3	2347.4	2335.1	2323.3	2326.9	2457.2	2713.6	2240.8
Ord. div. yield	4.42	4.45	4.48	4.49	4.48	3.78	4.51	3.43
Earn. yld. % full	6.47	6.51	6.55	6.61	6.60	4.38	6.61	3.82
P/E ratio net	17.85	17.71	17.62	17.44	17.47	28.59	33.43	16.94
P/E ratio nil	17.42	17.29	17.20	17.02	17.06	26.56	30.80	17.02

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2346.5	2353.5	2356.4	2357.2	2353.5	2352.6	2352.6	2354.3	2360.3	2365.3	2345.2

	Nov 30	Nov 29	Nov 28	Nov 25	Nov 24	Yr ago
SEAQ bargains	19,961	22,070	22,612	20,492	22,386	48,745
Equity turnover (£m)†	-	1107.2	1115.6	1066.4	1306.5	2797.5
Equity bargains†	-	24,951	26,049	22,590	27,247	52,684
Shares traded (m)†	-	536.5	541.7	475.5	539.5	968.1

†Excluding intra-market business and overseas turnover.

FT GOLD MINES INDEX

	Nov 30	% chg on day	Nov 29	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1903.05	-0.3	1909.82	1934.33	1929.54	2367.40	1782.82
Africa (16)	3044.25	-2.8	3131.78	3126.18	2764.34	4.50	3711.87 2304.45
Australasia (7)	2457.81	+1.5	2424.36	2478.85	2245.49	2.08	3013.89 2171.66
North America (11)	1482.34	-1.6	1459.28	1468.81	1661.81	0.90	2028.85 1449.07

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

هكذا من الاجل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or −	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£34	+2	£34	£13½	2,217	2.2	24.9
Barlow	♣	£5 7/16	−1/16	£5 15/16	£3 13/16	1,689	1.9	ϕ
Gold Flds Prop R		118xa	—	128	75	12.1	7.9	ϕ
MK Props		95	−3	98	85	3.82	12.7	–
SASOL	♥	501	−39	582	280	2,934	2.8	–
SA Brews	†	£15⅞xd	+⅛	£18 13/16	£10	4,216	1.9	23.6
Tiger Oats		728	—	838	538	1,084	2.1	ϕ
Tongaat-Hulett	†h	725	—	*725	356¼	888.8	2.0	21.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on MAR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

FT Free Annual Reports Service

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Lazard Freres Asset Management (CI) Ltd
PO Box 275, St Peter Port, Guernsey, CI 0481 710461

Lazard Fund Mngrs (Channel Islands) Ltd
PO Box 275, St Peter Port, Guernsey, C.I. 0481 710461

Lazard Select Investment Trust Ltd

Lloyds Intl Money Market Fund Ltd
Sarnia Hse, Le Truchot, St Peter Port 0481 724983

Lloyds Bank Fund Managers (Guernsey) Ltd

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 0481 723993

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey 0481 726268

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey 0481 713713

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

Nikko Asia Convertible Bond Fund

Nomura Asian Infrastructure Fd SICAV

Nomura Rosenberg Alpha Fund Mark II

Pacific Basin Growth Fund

Rosenberg Global Mngt Co SA (z)

Rosenberg Management SA (z)

Rosenberg US Japan Mngmt Co SA (z)

Edmond de Rothschild Group

CMI Insurance Co Ltd - Contd.

Century Life International

Eagle Star Intl Life

Equitable Life (International)

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Abtrust Fund Mngrs (Guernsey) Ltd

Adig Investment

Asian Malaysian Growth Fd (Cayman) Ltd

Alliance Capital

Allied Dunbar International Fund Mngrs

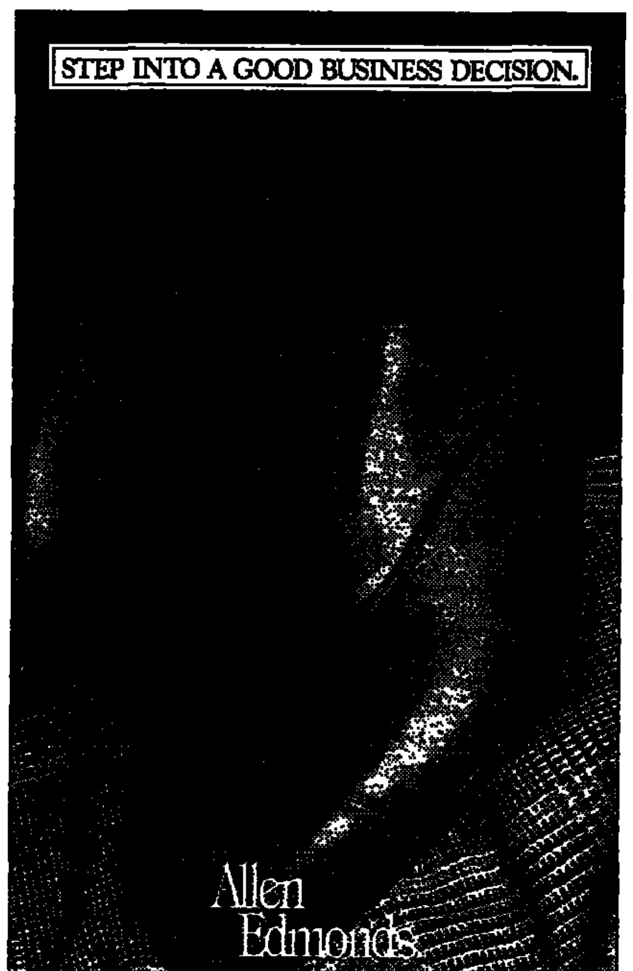
Alpha Fund Management Ltd

LUXEMBOURG

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

MANAGED FUNDS NOTES



CURRENCIES AND MONEY

MARKETS REPORT

Australian and NZ dollars touch record highs

Antipodean currencies were the main movers on the foreign exchanges yesterday as the prospect of higher interest rates drove both the Australian and New Zealand dollars to record highs, *writes Philip Gawith.*

The Australian dollar touched a 31 month high, after third quarter GDP reached the highest level in ten years, while the New Zealand dollar posted a four year high after the Reserve Bank hinted at the prospect of higher interest rates.

Sterling rallied slightly after Tuesday's budget, to close in London at DM2.4578, from DM2.4475. Against the dollar it finished at $1.5652 from $1.5678.

Elsewhere, the dollar showed little response to the release of third quarter GDP, industrial production and capacity utilisation figures. The dollar finished at DM1.5703, from DM1.5612, after the Commerce department revised its estimate of third quarter growth up to 3.9 per cent, from 3.4 per cent.

In Europe, the D-Mark remained weak under pressure from the firmer dollar. The French franc closed at FFr3.431/DM from FFr3.432. Outside the ERM, the lira continued to strengthen, touching a high of L1,028.45/DM at one stage, while the Norwegian krone maintained its post referendum strength, to close at NKr4.351/DM from NKr4.356.

■ The general consensus among City economists was that the budget was positive for sterling, especially in the longer term. Chase Manhattan entered the caveat that this was "more a reflection of the well-balanced economic recovery to date than any inspiration in the budget."

Natwest Markets said that "most relevant (for sterling) were Mr Clarke's growth estimates (and more specifically the implication for interest rates) and the more optimistic outlook on the trade front."

It noted that revised current account deficits for 1994 and 1995 represented just ¼ per cent of GDP, compared to 1¾ per cent in 1993. "This is a significant change for the UK and sterling, a currency that has had to fight against significant current account deficits through the latter half of the 1980s and early 1990s."

NatWest concluded its assessment on an optimistic note, saying "It may just be that the 1994 budget statement will be looked back upon as the first in which sterling was no longer considered a constantly depreciating asset."

Midland Global Markets also set out the positive case for sterling, asking rhetorically: "How many developed western economies can offer good growth, now balanced toward net exports and investment rather than consumption, a current account improving towards surplus, low inflation and rapidly improving public finances?"

Mr Neil MacKinnon, chief economist at Citibank in London, cautioned that political uncertainty would probably place a cap on sterling's gains.

There were some in the market who expected a rise in interest rates as early as yesterday. This accounted for the firming of cash rates, with three month LIBOR finishing at 6¾ per cent, up from 6⅝ per cent. Mr Richard Phillips, analyst at brokers GNI, estimated that around 30 per cent of his clients expected rates to rise next month, while 90 per cent expected higher rates by the end of January.

■ The New Zealand dollar closed in Wellington at a four year high after a signal from the Reserve Bank caused a sharp jump in interest rates, with the currency following suit. The "Kiwi" closed at US$0.6283/90, off its high of $0.6291, but substantially above its open of $0.6232/39.

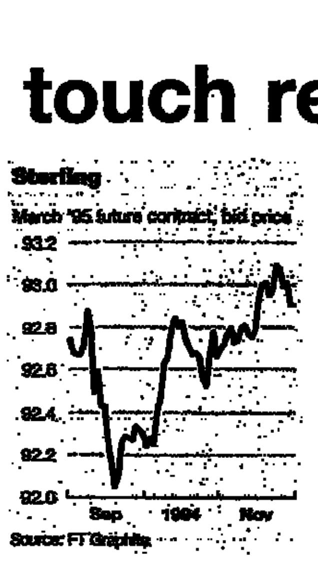
The Australian dollar also hit a 31-month high after GDP data showed economic growth running at a ten year high. Australia's annual growth rate surged to 6.4 per cent during the September quarter, the highest level since 1985. The figure would have been even higher, around 7.3 per cent, had it not been for the impact of a severe drought.

The growth heightened expectations of further interest rate rises, and the dollar rose on the back of this. It gained nearly half a cent in Australian trading, breaking through a key technical resistance level at US$0.7683. It finished in London at $0.7685.

■ The Bank of England provided UK money markets with £280m late assistance. Earlier it had injected £144m liquidity at established rates, after predicting a £550m shortage.

■ Pound in New York

Nov 30	Latest	Prev. close
£ spot	1.5660	1.5624
1 mth	1.5655	1.5620
3 mth	1.5658	1.5623
1 yr	1.5651	1.5607



Source: FT Graphite

■ OTHER CURRENCIES

Nov 30	£	$
Hungary	172.159 - 172.302	110.028 - 110.128
Iran	2763.00 - 2750.00	1749.00 - 1750.00
Kuwait	0.4683 - 0.4697	0.2993 - 0.3000
Poland	37768.0 - 37822.4	24135.0 - 24160.0
Russia	5071.25 - 5079.87	3240.00 - 3245.00
U.A.E.	5.7490 - 5.7686	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Nov 30		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. index
Europe													
Austria	(Sch)	17.3067	+0.0685	989 - 144	17.3144	17.1734	17.3023	0.3	17.2905	0.4	-	-	115.2
Belgium	(BFr)	50.5700	+0.2193	274 - 126	50.6130	50.3680	50.54	0.7	50.45	0.9	49.935	1.3	116.7
Denmark	(DKr)	9.6249	+0.0345	204 - 294	9.6294	9.6061	9.6261	-0.1	9.6297	-0.2	9.5982	0.3	116.6
Finland	(FM)	7.6176	+0.0447	081 - 271	7.6300	7.5790	-	-	-	-	-	-	87.5
France	(FFr)	8.4299	+0.0307	257 - 341	8.4341	8.4125	8.428	0.3	8.4181	0.6	8.3414	1.0	109.8
Germany	(DM)	2.4578	+0.0103	567 - 588	2.4598	2.4521	2.4569	0.4	2.4525	0.9	2.4183	1.6	125.9
Greece	(Dr)	378.665	+1.464	541 - 788	379.633	377.915	-	-	-	-	-	-	-
Ireland	(I£)	1.0196	+0.0032	186 - 205	1.0205	1.0162	1.0196	0.0	1.0189	0.3	1.018	0.2	104.7
Italy	(L)	2532.53	+8.45	138 - 368	2533.88	2522.98	2538.73	-2.9	2548.38	-2.5	2594.83	-2.5	73.6
Luxembourg	(LFr)	50.5700	+0.2193	274 - 126	50.6130	50.3680	50.54	0.7	50.45	0.9	49.935	1.3	116.7
Netherlands	(Fl)	2.7528	+0.0113	514 - 542	2.7557	2.7473	2.7519	0.4	2.7473	0.8	2.7126	1.5	120.6
Norway	(NKr)	10.6906	+0.0254	860 - 955	10.7475	10.6621	10.6914	-0.1	10.6906	0.0	10.688	0.0	96.1
Portugal	(Es)	251.129	+0.916	994 - 263	251.406	250.378	252.858	-8.3	256.039	-7.8	-	-	-
Spain	(Pta)	205.121	+0.882	036 - 206	205.390	204.198	205.476	-2.1	206.016	-1.7	208.661	-1.7	85.3
Sweden	(SKr)	11.7962	+0.0152	876 - 047	11.8585	11.7575	11.8152	-1.9	11.8477	-1.7	12.0027	-1.8	75.5
Switzerland	(SFr)	2.0793	+0.009	781 - 805	2.0823	2.0755	2.0759	2.0	2.0685	2.1	2.0251	2.6	120.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.2
Ecu	-	1.2883	+0.0043	877 - 888	1.2900	1.2855	1.2886	-0.3	1.2878	0.2	1.28	0.6	-
SDR†	-	0.932174	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5642	-0.0033	637 - 646	1.5678	1.5610	-	-	-	-	-	-	-
Brazil	(R)	1.3234	-0.0108	223 - 244	1.3249	1.3174	-	-	-	-	-	-	-
Canada	(C$)	2.1527	-0.0062	518 - 535	2.1570	2.1518	2.153	-0.2	2.1517	0.2	2.1505	0.1	86.2
Mexico	(New Peso)	5.3795	-0.0104	767 - 822	5.3936	5.3760	-	-	-	-	-	-	-
USA	($)	1.5652	-0.0026	648 - 655	1.5655	1.5610	1.5657	-0.4	1.5653	0.0	1.5634	0.1	63.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0367	-0.0149	349 - 384	2.0454	2.0319	2.0391	-1.4	2.0437	-1.4	2.0761	-1.9	-
Hong Kong	(HK$)	12.1046	-0.0188	015 - 077	12.1077	12.0728	12.1011	0.3	12.1085	-0.1	12.1753	-0.6	-
India	(Rs)	49.1379	-0.068	191 - 567	49.1567	49.0190	-	-	-	-	-	-	-
Japan	(Y)	154.872	+0.143	759 - 985	154.985	154.550	154.402	3.6	153.397	3.8	148.022	4.4	190.6
Malaysia	(M$)	4.0013	-0.0047	996 - 030	4.0030	3.9936	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4935	-0.0199	909 - 960	2.4980	2.4839	2.5001	-3.2	2.5112	-2.8	2.5493	-2.2	-
Philippines	(Peso)	37.3290	-0.0619	293 - 286	37.7888	36.9293	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8714	-0.0088	697 - 731	5.8731	5.8556	-	-	-	-	-	-	-
Singapore	(S$)	2.2914	-0.0001	901 - 927	2.2927	2.2855	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5606	+0.0048	582 - 630	5.5630	5.5386	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4359	-0.0703	188 - 530	6.4724	6.4188	-	-	-	-	-	-	-
South Korea	(Won)	1243.67	-1.38	323 - 410	1244.10	1240.53	-	-	-	-	-	-	-
Taiwan	(T$)	41.1134	-0.0413	995 - 273	41.1273	41.0051	-	-	-	-	-	-	-
Thailand	(Bt)	39.2141	-0.0345	014 - 267	39.2267	39.1110	-	-	-	-	-	-	-

†SDR rates for Nov 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 30		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	11.0575	+0.062	550 - 600	11.0725	11.0485	11.05	0.8	11.0335	0.9	10.936	1.1	104.3
Belgium	(BFr)	32.3100	+0.1935	900 - 300	32.3920	32.2400	32.2825	1.0	32.235	0.9	31.94	1.1	105.9
Denmark	(DKr)	6.1495	+0.0322	480 - 510	6.1624	6.1478	6.1468	0.5	6.1505	-0.1	6.1395	0.2	105.1
Finland	(FM)	4.8670	+0.0366	620 - 720	4.8831	4.8498	4.8623	1.2	4.8575	0.8	4.8455	0.4	82.2
France	(FFr)	5.3860	+0.0265	845 - 875	5.3995	5.3820	5.3831	0.7	5.3786	0.5	5.3355	0.9	106.2
Germany	(D)	1.5703	+0.0091	700 - 706	1.5731	1.5692	1.5693	0.8	1.567	0.9	1.5468	1.5	106.8
Greece	(Dr)	241.935	+1.335	910 - 960	242.980	241.810	244.535	-13.4	249.185	-12.0	267.685	-10.6	68.3
Ireland	(I£)	1.5352	-0.0074	341 - 362	1.5389	1.5318	1.5357	-0.4	1.5362	-0.2	1.5352	0.0	-
Italy	(L)	1618.08	+8.08	770 - 845	1619.30	1614.50	1621.53	-2.6	1628.28	-2.5	1659.88	-2.6	74.1
Luxembourg	(LFr)	32.3100	+0.1935	900 - 300	32.3920	32.2400	32.2825	1.0	32.235	0.9	31.94	1.1	105.9
Netherlands	(Fl)	1.7588	+0.0101	583 - 593	1.7640	1.7574	1.7577	0.8	1.7553	0.8	1.7353	1.3	105.6
Norway	(NKr)	6.8305	+0.0275	290 - 320	6.8784	6.8255	6.8317	-0.2	6.829	0.1	6.8205	0.1	96.3
Portugal	(Es)	160.450	+0.85	400 - 500	160.900	160.200	160.975	-3.9	162.1	-4.1	165.7	-3.3	95.1
Spain	(Pta)	131.055	+0.78	030 - 080	131.450	130.670	131.24	-1.7	131.63	-1.8	133.475	-1.8	80.4
Sweden	(SKr)	7.5368	+0.0222	330 - 405	7.5683	7.5277	7.5468	-1.6	7.5698	-1.8	7.6778	-1.9	80.4
Switzerland	(SFr)	1.3285	+0.0079	280 - 290	1.3335	1.3280	1.3259	2.3	1.3216	2.1	1.2953	2.5	106.3
UK	(£)	1.5652	-0.0026	648 - 655	1.5655	1.5610	1.5657	-0.4	1.5653	0.0	1.5634	0.1	88.6
Ecu	-	1.2150	-0.006	147 - 152	1.2155	1.2110	1.2151	-0.1	1.2155	-0.1	1.2215	-0.5	-
SDR†	-	1.46025	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9994	-0.0005	993 - 994	0.9995	0.9993	-	-	-	-	-	-	-
Brazil	(R)	0.8455	-0.0055	450 - 460	0.8470	0.8430	-	-	-	-	-	-	-
Canada	(C$)	1.3754	-0.003	751 - 756	1.3800	1.3751	1.3747	0.6	1.3748	0.2	1.3784	-0.2	82.6
Mexico	(New Peso)	3.4370	-0.001	360 - 380	3.4550	3.4360	3.438	-0.3	3.4398	-0.3	3.4472	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3013	-0.0074	004 - 021	1.3091	1.3002	1.3021	-0.7	1.3039	-0.8	1.3166	-1.2	90.0
Hong Kong	(HK$)	7.7339	+0.0009	336 - 341	7.7341	7.7335	7.7318	0.3	7.7306	0.2	7.7384	-0.1	-
India	(Rs)	31.3950	+0.01	900 - 000	31.4100	31.3850	31.465	-2.7	31.61	-2.7	-	-	-
Japan	(Y)	98.9500	+0.255	000 - 000	99.1900	98.8700	98.62	4.0	98.01	3.8	94.675	4.3	150.7
Malaysia	(M$)	2.5565	+0.0012	560 - 570	2.5581	2.5560	2.5535	1.4	2.549	1.2	2.577	-0.8	-
New Zealand	(NZ$)	1.5931	-0.0101	918 - 944	1.5959	1.5896	1.594	-0.7	1.5965	-0.9	1.6055	-0.8	-
Philippines	(Peso)	23.8500	-	000 - 000	24.1000	23.5000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7514	+0.0007	511 - 516	3.7516	3.7507	3.755	-1.1	3.7619	-1.1	3.7764	-0.7	-
Singapore	(S$)	1.4640	+0.0023	635 - 645	1.4645	1.4630	1.4625	1.3	1.459	1.4	1.4425	1.5	-
S Africa (Com.)	(R)	3.5528	+0.009	520 - 535	3.5550	3.5470	3.5683	-5.2	3.6004	-5.4	3.7653	-6.0	-
S Africa (Fin.)	(R)	4.1120	-0.038	020 - 220	4.1450	4.1050	4.14	-8.2	4.1845	-7.1	4.422	-7.5	-
South Korea	(Won)	794.800	+0.45	500 - 700	794.800	794.200	797.8	-4.5	801.1	-3.3	819.6	-3.1	-
Taiwan	(T$)	26.2680	+0.0172	650 - 710	26.2765	26.2550	26.288	-0.9	26.328	-0.9	-	-	-
Thailand	(Bt)	25.0545	+0.0195	520 - 570	25.0570	25.0400	25.084	-1.4	25.175	-1.9	25.5795	-2.1	-

†SDR rate for Nov 29. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 29. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 30	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	4¾	5⅜	5⅜	5⅜	6¼	7.40	4.50	-
week ago	4¾	5⅜	5⅜	5½	6¼	7.40	4.50	-
France	5⅜	5⅞	5¾	5⅞	6½	5.00	-	6.75
week ago	5⅝	5⅞	5⅝	5⅞	6½	5.00	-	6.75
Germany	4.98	5.22	5.22	5.28	5.58	6.00	4.50	4.85
week ago	4.88	5.22	5.15	5.25	5.55	6.00	4.50	4.95
Ireland	5¼	5¾	5¾	6¼	7¼	-	-	6.25
week ago	5¼	5¾	5¾	6¼	7¼	-	-	6.25
Italy	8⅜	8⅜	8¾	9¼	10	-	7.50	8.20
week ago	8⅜	8⅝	8¾	9⅜	10	-	7.50	8.20
Netherlands	4.84	5.30	5.35	5.45	5.78	-	5.25	-
week ago	4.84	5.30	5.20	5.34	5.73	-	5.25	-
Switzerland	3½	3¾	4	4¼	4⅜	6.625	3.50	-
week ago	3	3¾	3⅞	4⅛	4½	6.625	3.50	-
US	5⅝	6	6¼	6½	7⅛	-	4.75	-
week ago	5½	6	5¾	6¼	6¾	-	4.75	-
Japan	2¼	2¼	2⅜	2⅛	2⅜	-	1.75	-
week ago	2⅜	2¼	2⅜	2¼	2⅜	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	6⅛	6⅛	6⅝	7¼	-	-	-
week ago	-	6⅛	5⅞	6⅛	6⅞	-	-	-
US Dollar CDs	-	5.68	5.93	6.34	7.01	-	-	-
week ago	-	5.68	5.69	6.04	6.66	-	-	-
SDR Linked Ds	-	3¾	3⅞	3¾	4	-	-	-
week ago	-	3¾	3⅞	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅝; 3 mths: 5¾; 6 mths: 6 ; 1 year: 6¾. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 30	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6⅛ - 6	6⅛ - 6	5⅛ - 5	5¼ - 5⅛	5 7/16 - 5 5/16	6 1/16 - 5 15/16
Danish Krone	5¾ - 5½	5¾ - 5½	5¾ - 5½	6¼ - 6	6⅝ - 6⅜	7¼ - 7
D-Mark	5¼ - 5⅛	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5⅜ - 5¼	5 11/16 - 5 9/16
Dutch Guilder	5 1/16 - 4 15/16	5 1/16 - 4 15/16	5 1/16 - 5	5 7/16 - 5 5/16	5⅜ - 5¼	5¾ - 5⅝
French Franc	5⅜ - 5¼	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5⅝ - 5½	5 13/16 - 5 11/16	6¼ - 6⅛
Portuguese Esc.	9⅝ - 8⅞	9⅛ - 8⅞	9 11/16 - 9⅝	10⅜ - 10¼	10⅝ - 10⅜	10 13/16 - 10⅝
Spanish Peseta	7½ - 7 7/16	7 3/16 - 7 1/16	7⅝ - 7½	7 13/16 - 7¾	8⅜ - 8¼	9⅛ - 9
Sterling	6⅜ - 5½	5 13/16 - 5 11/16	5 13/16 - 5 11/16	6¼ - 6⅛	6 11/16 - 6 9/16	7 7/16 - 7 5/16
Swiss Franc	3⅝ - 3⅜	3 9/16 - 3 7/16	3⅞ - 3¾	4 - 3⅞	4 3/16 - 4 1/16	4⅝ - 4½
Can. Dollar	5½ - 5⅜	5 7/16 - 5¼	5½ - 5⅜	6 - 5⅞	6 7/16 - 6 5/16	7 5/16 - 7 3/16
US Dollar	5¾ - 5⅝	5⅝ - 5½	6 1/16 - 5 15/16	6 3/16 - 6 1/16	6 9/16 - 6 7/16	7¼ - 7⅛
Italian Lira	9 - 7½	8 7/16 - 8 5/16	8 7/16 - 8 5/16	8¾ - 8⅝	9¼ - 9⅛	10 - 9⅞
Yen	2¼ - 2 1/16	2⅜ - 2¼	2⅜ - 2¼	2⅜ - 2¼	2½ - 2⅜	2¾ - 2 11/16
Asian $Sing	3⅞ - 3⅝	4⅜ - 4¼	4 5/16 - 4 3/16	4 9/16 - 4 7/16	4 13/16 - 4 11/16	4 13/16 - 4 11/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.35	94.33	-0.03	94.36	94.33	12,680	33,938
Mar	94.06	94.07	-0.01	94.09	94.04	14,383	52,985
Jun	93.65	93.65	-0.03	93.67	93.60	8,829	34,977
Sep	93.32	93.32	-0.04	93.35	93.27	4,602	21,870

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		93.74	-0.08			0	2627
Mar	93.12	93.08	-0.05	93.12	93.12	10	1458
Jun		92.48	-0.02			0	390
Sep		92.16	+0.04			0	177

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.75	94.74	-0.02	94.78	94.71	28295	119401
Mar	94.64	94.65	+0.01	94.67	94.60	40138	184808
Jun	94.27	94.32	+0.05	94.34	94.22	41868	130278
Sep	93.95	93.99	+0.06	94.01	93.88	19377	82880

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	91.17	91.14	-	91.18	91.11	2675	28783
Mar	90.46	90.49	+0.03	90.52	90.42	5523	35593
Jun	90.00	89.98	+0.02	90.01	89.93	1889	18947
Sep	89.60	89.59	+0.02	89.61	89.55	2622	21357

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.94	95.94	-	95.95	95.92	1939	15656
Mar	95.63	95.64	+0.01	95.65	95.58	4733	22187
Jun	95.31	95.33	+0.01	95.34	95.29	716	7045
Sep	95.00	95.01	-	95.01	94.99	563	3213

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.00	94.00	-0.03	94.01	93.97	1188	7451
Mar	93.71	93.73	-0.02	93.76	93.66	881	8320
Jun	93.24	93.26	-0.01	93.25	93.22	258	4093
Sep	92.73	92.79	+0.01	92.75	92.73	26	2770

* LIFFE futures traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 30		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.03	16.67	4.859	2.015	5007	5.442	21.14	496.5	405.6	23.31	4.111	1.977	4.255	3.095	306.1	2.547
Denmark	(DKr)	52.55	10	8.758	2.553	1.059	2631	2.860	11.11	260.9	213.1	12.25	2.160	1.039	2.236	1.626	160.8	1.338
France	(FFr)	60.00	11.42	10	2.915	1.209	3004	3.265	12.68	297.9	243.3	13.99	2.466	1.186	2.553	1.857	183.7	1.528
Germany	(DM)	20.58	3.917	3.431	1	0.415	1031	1.120	4.351	102.2	83.48	4.799	0.846	0.407	0.876	0.637	63.00	0.524
Ireland	(I£)	49.63	9.445	8.272	2.411	1	2485	2.701	10.49	246.4	201.3	11.57	2.040	0.981	2.112	1.536	151.9	1.264
Italy	(L)	1.997	0.380	0.333	0.097	0.040	100.	0.109	0.422	9.917	8.100	0.466	0.082	0.039	0.085	0.062	6.114	0.051
Netherlands	(Fl)	18.38	3.497	3.063	0.893	0.370	920.1	1	3.884	91.24	74.53	4.284	0.755	0.363	0.782	0.569	56.25	0.468
Norway	(NKr)	47.31	9.003	7.885	2.298	0.953	2369	2.574	10	234.9	191.9	11.03	1.945	0.935	2.013	1.464	144.8	1.205
Portugal	(Es)	20.14	3.833	3.357	0.978	0.406	1008	1.096	4.257	100.	81.68	4.695	0.828	0.398	0.857	0.623	61.65	0.513
Spain	(Pta)	24.65	4.692	4.110	1.198	0.497	1235	1.342	5.212	122.4	100.	5.748	1.014	0.488	1.049	0.763	75.48	0.628
Sweden	(SKr)	42.89	8.163	7.149	2.084	0.864	2148	2.334	9.067	213.0	174.0	10	1.763	0.848	1.825	1.327	131.3	1.092
Switzerland	(SFr)	24.32	4.629	4.054	1.182	0.490	1218	1.324	5.142	120.8	98.65	5.671	1	0.481	1.035	0.753	74.46	0.620
UK	(£)	50.57	9.624	8.429	2.457	1.019	2532	2.752	10.69	251.1	205.1	11.79	2.079	1	2.152	1.565	154.8	1.288
Canada	(C$)	23.50	4.472	3.917	1.142	0.474	1177	1.279	4.967	116.7	95.31	5.479	0.966	0.465	1	0.727	71.93	0.599
US	($)	32.31	6.150	5.386	1.570	0.651	1618	1.758	6.831	160.4	131.1	7.534	1.328	0.639	1.375	1	98.91	0.823
Japan	(Y)	32.67	6.217	5.445	1.587	0.658	1636	1.778	6.906	162.2	132.5	7.616	1.343	0.646	1.390	1.011	100.	0.832
Ecu		39.26	7.472	6.544	1.908	0.791	1966	2.137	8.300	195.0	159.2	9.154	1.614	0.776	1.671	1.215	120.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6368	0.6364	-0.0005	0.6374	0.6358	38,040	103,153
Mar	0.6383	0.6377	-0.0004	0.6383	0.6375	2,812	11,029
Jun	-	0.6407	-	-	0.6407	63	1,443

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.0117	1.0109	-0.0015	1.0130	1.0108	23,073	75,165
Mar	1.0200	1.0202	-0.0013	1.0218	1.0200	1,736	12,402
Jun	1.0320	1.0320	-0.0013	1.0320	1.0320	110	1,019

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7533	0.7520	-0.0011	0.7541	0.7510	19,251	56,009
Mar	0.7560	0.7557	-0.0011	0.7582	0.7553	1,508	4,871
Jun	0.7605	0.7604	-0.0013	0.7606	0.7604	24	325

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5622	1.5626	+0.0004	1.5640	1.5614	14,138	50,121
Mar	1.5632	1.5628	+0.0008	1.5640	1.5620	2,476	7,120
Jun	-	1.5630	-	1.5630	-	9	119

UK INTEREST RATES

LONDON MONEY RATES

Nov 30	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 - 4½	5¼ - 5	5 11/16 - 5 7/16	6¼ - 6	6 11/16 - 6½	7 7/16 - 7 3/16
Sterling CDs	-	-	5⅝ - 5½	6⅛ - 6 1/16	6⅝ - 6 7/16	7 7/16 - 7 3/16
Treasury Bills	-	-	5½ - 5⅜	5⅞ - 5 13/16	-	-
Bank Bills	-	-	5½ - 5⅜	6 - 5 15/16	6 7/16 - 6⅜	-
Local authority deps.	4 13/16 - 4 11/16	5⅛ - 5⅛	5⅝ - 5½	6 1/16 - 6 1/16	6⅝ - 6½	7 5/16 - 7 3/16
Discount Market deps	6¾ - 4½	5⅛ - 5	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.7182pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 30, 1994. Agreed rate for period Dec 26, 1994 to Jan 24, 1995, Schemes II & III 7.29pc. Reference rate for period Nov 1, 1994 to Nov 30, 1994, Schemes IV & V 6.107pc. Finance House Base Rate 6pc from Nov 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.62	93.65	-0.02	93.66	93.61	19390	122306
Mar	92.86	92.92	+0.01	92.94	92.83	37572	94691
Jun	92.24	92.32	+0.03	92.32	92.22	9105	55068
Sep	91.74	91.87	+0.05	91.87	91.74	6489	64586

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9350	0.20	0.06	0.07	0.05	0.64	1.25
9375	0.06	0.02	0.04	0.16	0.85	1.47
9400	0.01	0	0.02	0.36	1.06	1.70

Est. vol. total, Calls 10122 Puts 6319. Previous day's open int., Calls 341771 Puts 241670

EMS EUROPEAN CURRENCY UNIT RATES

Nov 30	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14479	+0.0005	-2.36	6.12	-
Belgium	40.2123	39.3850	+0.0078	-2.06	5.79	15
Germany	1.94964	1.91545	+0.00095	-1.75	5.46	-
Ireland	0.808628	0.794458	+0.000621	-1.75	5.46	12
France	6.53883	6.56934	+0.00025	0.47	3.13	-4
Denmark	7.43679	7.50268	+0.0039	0.89	2.70	-6
Portugal	192.854	195.678	+0.087	1.46	2.12	-10
Spain	154.250	159.820	+0.106	3.61	0.00	-25
NON ERM MEMBERS						
Greece	264.513	295.072	+0.045	11.55	-7.12	-
Italy	1793.19	1972.79	-0.66	10.02	-5.62	-
UK	0.786749	0.779624	-0.001656	-0.88	4.53	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.525	3.82	4.29	4.75	0.07	0.55	1.07
1.550	1.82	2.54	3.14	0.51	1.29	1.93
1.575	0.66	1.35	1.97	1.74	2.53	3.13
1.600	0.09	0.61	1.14	3.72	4.22	4.76
1.625	0.01	0.23	0.60	6.09	6.32	6.69
1.650	-	0.05	0.26	8.57	8.57	8.79

Previous day's vol., Calls 10,554 Puts 12,676 . Prev. day's open int., Calls 382,697 Puts 341,082

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	93.79	93.74	-0.06	93.80	93.71	116,578	357,433
Mar	93.11	93.06	-0.05	93.13	93.01	214,349	458,570
Jun	92.51	92.46	-0.03	92.53	92.40	174,338	328,775

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.38	94.34	-0.07	94.39	94.34	4,095	9,812
Mar	93.72	93.65	-0.07	93.72	93.62	5,216	13,272
Jun	93.02	93.05	-0.08	93.05	93.02	405	1,966

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
9450	0.25	0.20	0.22	0.25	0.01	0.05	0.07	0.10
9475	0.06	0.06	0.08	0.11	0.07	0.16	0.18	0.21
9500	0.01	0.01	0.03	0.04	0.27	0.36	0.38	0.39

Est. vol. total, Calls 5606 Puts 13628. Previous day's open int., Calls 227771 Puts 206463

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9575	0.20	0.11	0.08	0.01	0.22	0.50
9600	0.03	0.04	0.03	0.09	0.40	0.70
9625	0.01	0.02	0.01	0.32	0.63	0.93

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2815 Puts 1815

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williamson Secs.	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75	● Members of London Investment Banking Association	
Citibank NA	5.75	Lloyds Bank	5.75	* In administration	
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	* Mount Banking	6		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

صكرا من الاهل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 30 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Nov 30 / Frs.)

[illegible]

DENMARK (Nov 30 / Kr)

[illegible]

FINLAND (Nov 30 / Mks)

[illegible]

FRANCE (Nov 30 / Frs.)

[illegible]

GERMANY (Nov 30 / Dm.)

[illegible]

ITALY (Nov 30 / Lire)

[illegible]

NETHERLANDS (Nov 30 / Fls.)

[illegible]

NORWAY (Nov 30 / Kroner)

[illegible]

SPAIN (Nov 30 / Pts.)

[illegible]

SWEDEN (Nov 30 / Kronor)

[illegible]

SWITZERLAND (Nov 30 / Frs.)

[illegible]

PACIFIC

JAPAN (Nov 30 / Yen)

[illegible]

AUSTRALIA (Nov 30 / Aust$)

[illegible]

HONG KONG (Nov 30 / H.K.$)

[illegible]

MALAYSIA (Nov 30 / MYR)

[illegible]

SINGAPORE (Nov 30 / S$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Nov 30 / Can $)

4 pm close

[illegible]

MONTREAL (Nov 30 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Nov 30 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ♯ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, November 30, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	7.3m	384	+5	Kawasaki Steel	3.8m	424	+2
Toshiba	4.1m	692	+1	Mitsubishi Hvy	3.7m	734	+5
Hitachi	4.1m	977	+22	Sanyo Electric	3.6m	590	+3
Sumitomo Bank	4.0m	1770	+30	Mitsubishi Elec	3.2m	697	+2
Sumitomo Mtl	3.9m	323	+3	NEC	3.0m	1150	-10

INDICES

[illegible]

Thailand							
Bangkok SET (30/4/75)	1362.44	1353.34	1342.13	1753.73	4/1	1198.59	4/4
Turkey							
Istanbul Cmp.(Jan 1986)	28181.0	27552.4	27332.0	28883.80	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)$	614.6*	611.8	610.9	649.99	2/11	591.89	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1341.95	1333.87	1335.02	1540.39	31/1	1288.48	5/10
Euro Top-100 (26/6/90)	1184.19	1175.04	1176.84	1311.01	2/2	1136.48	5/10
JCapelDoprs (31/12/88)	(u)	311.26	310.87	365.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	(u)	170.80	169.42	181.79	26/9	141.85	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	1946.0	1955.6	+15.6	1958.0	1939.5	23,787	9,087
Dec	1955.0	1987.0	+38.0	1988.0	1948.0	26,975	31,552
Jan	1962.5	1994.5	+38.0	1973.0	1962.5	4	595

Open interest figures for previous day

[illegible] Base values of all indices are 100 except Australia All Ordinary [illegible] Mining - 500, Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 264.7, JSE 20 Industrials - 264.3, NYSE All Common - 50 and Standard and Poor's - 10. §§ [illegible] ♦ Toronto (c) Closed. (u) Unavailable. ‡ IBIS-DAX after-hours Index: Nov 30 - 2067.20 +21.04

US INDICES

Dow Jones	Nov 29	Nov 28	Nov 25	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3738.55	3739.58	3708.27	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	93.79	93.61	93.77	105.61 (21/1)	93.61 (28/11)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1442.22	1430.11	1429.18	1862.29 (2/2)	1422.19 (23/11)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	179.41	179.54	179.61	227.06 (3/1)	173.94 (22/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3755.04 (3759.41) Low 3703.90 (3683.13) (Theoretical♦)
Day's high 3742.93 (3741.92) Low 3718.03 (3708.27) (Actual♦)

Standard and Poors	Nov 29	Nov 28	Nov 25	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	455.17	454.16	452.29	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials▼	541.43	540.35	537.21	563.19 (28/10)	510.05 (21/4)	563.19 (28/10/94)	3.62 (21/6/82)
Financial	41.31	41.08	41.04	46.94 (14/6)	39.87 (22/11)	48.49 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	248.90	248.46	247.80	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	433.09	433.59	434.69	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	751.48	745.73	742.52	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Nov 25	Nov 18	Nov 11	Year ago
Dow Jones Ind. Div. Yield	2.87	2.79	2.78	2.72
	Nov 23	Nov 16	Nov 9	Year ago
S & P Ind. Div. yield	2.48	2.38	2.39	2.40
S & P Ind. P/E ratio	18.29	19.03	20.93	27.14

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	455.00	456.10	-0.15	457.00	455.80	87,431	200,641
Mar	-	459.35	-	-	-	12,304	54,138
Jun	-	463.40	-	-	-	275	4,777

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
RJR Nabisco	5,935,500	6⅛	-⅛
Fed Dept Sts	4,952,400	20⅞	+1
Telefonos	4,825,600	54½	+¼
Amer T & T	4,254,200	49⅛	-⅛
YPF Soc	3,234,300	22⅛	+1⅛
OHM Corp	2,926,700	6¾	-2
Compaq	2,903,200	40⅝	+¾
Host Marriott	2,869,800	9⅛	+⅛
Potomac El	2,751,200	18⅞	—
Santa Fe	2,603,500	16⅞	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Nov 29	Nov 28	Nov 25
New York SE	286.587	265.030	113.821
Amex	17.800	15.400	7.715
NASDAQ	277.124	214.213	88.857
NYSE			
Issues Traded	2,929	2,909	2,739
Rises	1,133	1,187	1,496
Falls	1,085	1,065	564
Unchanged	711	677	679
New Highs	9	4	3
New Lows	107	108	51

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation.

4 pm close November 30

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
17¾	11⅞	AAR	0.48	3.7	23	149	13¼	12¾	13⅛	+¼
18⅛	12⅝	A L Labs A	0.18	1.0	39	180	17¼	17	17¼	+⅛
79⅛	67⅝	AMP	1.68	2.3	22	1599	72⅞	71⅞	72¼	+⅞
72¾	48⅛	AMR			107	2344	61	60⅝	50¾	+¼
5	3⅝	ARX			12	95	3⅞	3¾	3¾	
56¼	38⅝	ASA x	2.00	4.6	28	327	44½	43⅝	43⅝	-⅛
33	25⅞	AbbtL	0.76	2.4	17	6304	32⅛	31⅞	31⅞	-⅛
15¾	11⅞	AbitiBd Pr	0.50	3.9	11	68	12⅞	12⅝	12⅞	+¼
23⅝	17¼	ABM Ind	0.52	2.5	13	22	20¼	20⅛	20¼	+⅛
18	11⅛	Acpimoein			10	436	14½	13⅞	14⅜	+⅝
31	20¼	ACE Ltd	0.44	2.0	21	799	21⅞	d20¼	21⅞	+1⅛
12½	8	ACM Gvt In	1.08	11.4	8	233	9⅝	9½	9⅝	
10⅛	6⅞	ACM GvOpp	0.80	10.6		122	7½	7⅜	7½	+⅛
10⅝	6¼	ACM Gvt Sp	0.96	13.0		468	7½	7¼	7⅜	
12	7⅞	ACM Gvt So	1.09	12.7		182	8⅝	8⅜	8⅝	+⅛
11¾	7⅞	ACM Man	1.06	12.9		122	8½	8⅜	8⅜	-⅛
9¼	8	ACM Managd	0.72	8.7		55	8¼	8¼	8¼	
15½	8¾	AcmeClv	0.44	4.0	22	75	11	10¾	10⅞	
13⅝	6½	Acme Elect			13	268	u13⅞	13⅜	13⅜	-⅛
29	23	Acordia x	0.60	2.1	14	36	d28¼	28	28⅛	+⅛
13¾	5¾	Actava	0.36	3.6	2	195	10	9⅞	9⅞	
18⅜	11¼	Acuson			27	1554	16¼	15¾	16¼	+1¼
18⅜	15⅝	Adams Expr	0.68	4.4	0	153	15¾	d15½	15⅝	-⅛
64	46½	Ad Micro x	3.00	5.5		70	54⅞	54¼	54¼	
31¾	16¼	AdvMic	3.00	11.9	8	5637	25¾	25⅛	25¼	-⅛
6⅞	5	Advest Grp	0.16	3.0	15	48	5¼	5¼	5¼	
20	16	Advo Inc	0.10	0.6	17	102	18⅛	17⅞	17⅞	-⅛
64	49⅞	Aegon ADR	1.47	2.4	12	37	61⅞	61½	61¾	
65¾	42¼	Aetnal.	2.76	6.2	5	3219	45	44⅛	44¾	+⅝
36⅛	25¼	Aflac	0.46	1.4	12	1151	33⅞	33½	33⅞	+⅛
22¾	15¾	Ahmnsn	0.88	5.3	9	2091	16¾	16½	16⅝	+¼
4	1⅜	Aileen Inc			1	50	1⅞	1⅝	1⅞	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S -

Continued on next page

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4 pm close November 30

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	1994 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg Prev Close
9⅞	4⅝	Saliant Crp			10	46	5	4¾	5	+⅛
40⅞	31¼	Sallie Mae x	1.48	4.3	6	2587	34½	34	34¼	+1.23
13⅞	11	Salomon Br x	0.38	3.5	22	104	11⅛	d11	11	

1994 High	1994 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg Prev Close
9½	6⅜	Talleyind	0.42	4.9	22	90	8⅝	8⅛	8⅝	+¼
18⅛	10	Talley Pf	1.00	7.2		z100	13⅞	13⅞	13⅞	
44½	34⅝	Tmbrds x	1.76	4.6	16	209	38¾	38½	38⅝	
19⅞	10½	Tandem			11	2177	17⅛	17	17	-⅛
46⅞	30¾	Tandy	0.60	1.3	16	5763	46¼	43	46⅛	+3

1994 High	1994 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg Prev Close
10⅞	8⅛	USLIFE Inc	0.80	9.7	0	33	8⅜	8¼	8¼	-¼
19⅛	15⅝	USX M	0.68	3.8	26	5698	18⅛	18	18	-¼
45⅞	30¼	USX US	1.00	2.9	11	2147	34¾	34⅛	34⅜	+⅛
17⅞	11¼	USX Delhi	0.20	1.7	5	224	11⅞	11½	11⅞	+½
31⅞	25⅛	Utilicorp	1.72	6.7	12	258	25⅞	25¾	25¾	

NASDAQ NATIONAL MARKET

4 pm close November 30

AMEX COMPOSITE PRICES

4 pm close November 30

AMERICA

Firmer Dow ignores mixed economic signs

Wall Street

US share prices moved solidly higher yesterday as the bond market held steady, in spite of mixed signals about inflationary pressures in the economy, *writes Lisa Bransten in New York.*

By 1 pm the Dow Jones Industrial Average was up 15.82 at 3,754.37. The Standard & Poor's 500 rose 0.81 to 455.98, while the American Stock Exchange composite gained 0.76 at 433.85. The Nasdaq composite was up 1.82 at 753.30. Trading volume on the NYSE came to 171m shares.

Economic statistics released yesterday gave differing signals on inflation. Capacity utilisation figures for October were revised downward, while the commerce department revised its estimate of gross domestic product up. A survey by Chicago purchasing managers showed business activity up at 67.4 per cent in November from 64.3 per cent in October and a sharp increase in the "prices paid" component of the report from 72.5 per cent to 79.4 per cent

While the Chicago survey is not considered an extremely important figure, it is taken as an indicator of the direction of the National Association of Purchasing Managers figures due out this morning.

The long bond gained modestly after the capacity utilisation data for October was revised down to 84.6 per cent from 84.9. The figure provides a measure of the percentage of capital goods being used in the production of goods. Although news of the slowing of the economy is generally bad for the stock market, lately investors are watching for any news that might put off another interest rate increase by the Federal Reserve.

The upward revision in GDP figures boosted shares in large cyclicals, which generally gain from a strong economy. Aluminum Company of America gained $⅞ at $81⅞, Caterpillar $⅝ at $53⅞, Dupont $⅝ at $54⅞, Union Carbide $1⅛ at $28⅝ and International Paper $⅞ at $71½.

Major pharmaceutical stocks posted increases. Pfizer rose $1⅞ at $77⅞, Eli Lilly rose $1 at $62⅛, Merk was up $⅝ at $37⅞ and Bristol-Meyers Squibb increased $⅛ at $58⅛.

Apache, the oil and gas company, rose $1⅞ at $27 on news that it had agreed to buy more than 300 oil and gas fields from Texaco for $600m. Texaco gained $¼ at $62¼.

American Brands, the consumer goods company, rose $1 at $35⅝ on news that it would sell its insurance unit to American General for $1.2bn. Shares in American General also gained, up $⅛ at $26⅛.

ADRs of two of Mexico's largest companies, Telemex and Grupo Televisa, were mixed on news that the telecommunications group would acquire 49 per cent of Televisa's cable subsidiary, Cablevision, for $211m. Telmex gained $⅝ at $54⅞ and Televisa dropped $⅛ at $46⅞.

Brazil

Shares in São Paulo were nearly 2 per cent higher in moderate midday trade as investors continued to buy on lower interest rates and forecasts of a reduction in inflation during December.

The Bovespa index was up 881 at 47,601 by 1 pm in turnover of R$220.8m ($260.7m).

Analysts said moderate buying from fund managers and institutional investors squaring portfolios at the end of the month also provided support.

● Merrill Lynch said that it expected Brazil's stock markets to grow by 50 per cent in 1995 and to outperform all other major emerging markets in Latin America.

Merrill Lynch said that the country was a good investment option because prospects for a period of sustained economic growth were good.

Brazil's stabilisation plan, which included the introduction of a new currency on July 1, had cut inflation to around 3 per cent in November from 50 per cent in June.

Merrill cautioned that the stabilisation plan had yet to overcome a few obstacles before it achieved long-term success. These included reforms to the economy, welfare and taxation.

Canada

Toronto was higher at midday, supported by a recovery in base metals which led gaining sectors. The equities market also received a boost from Canada's stronger-than-expected third quarter gross domestic product data.

The TSE-300 index climbed 15.80 to 4,119.52 by noon in heavy volume of 32.3m shares.

Inco led the gaining metals stocks, aided by rising copper and nickel prices, picking up C$1 to C$37⅞.

Information Systems Management jumped C$1⅛ to C$13⅞ in response to Tuesday's news that IBM had launched a C$130m bid for the remaining ISM shares that it does not already own.

SOUTH AFRICA

The market improved but non-gold shares saw early gains eroded, ending only slightly better on the day, with investors remaining nervous about short term prospects.

Trade was generally limited and dealers said shares consolidated as they searched for fresh direction. The overall index added 7.4 at 5,756.4, the industrial index was 11.6 better at 6,898.4 and the golds index put on 20.1 at 1,974.1.

De Beers shed R1.50 to R89.75 in line with losses in New York overnight, while Anglos managed a R2.15 gain at R230.15 after results.

Gencor declined 5 cents to R14.45, while SAB finished R1 ahead at R97.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Nov. 25 1994	% Change over week	% Change on Dec '93	Local currency terms: Nov. 25 1994	% Change over week	% Change on Dec '93
Latin America	(207)	687.98	-2.8	+5.7			
Argentina	(24)	798.34	-5.3	-19.9	488,749.94	-5.3	-19.9
Brazil	(57)	386.23	-8.6	+66.0	1,241,429,176	-6.1	+1,121.6
Chile	(25)	789.08	-2.3	+43.0	1,314.86	-2.2	+37.9
Colombia[1]	(11)	777.94	-0.2	+20.7	1,141.45	-0.1	+23.1
Mexico	(67)	884.22	+1.8	-12.1	1,314.41	+1.6	-2.6
Peru[2]	(11)	180.35	-1.9	+49.1	240.58	-1.9	+51.3
Venezuela[3]	(12)	425.86	-6.7	-28.0	1,662.68	-6.7	+17.0
Asia	(558)	254.93	-3.8	-12.4			
China[4]	(18)	91.61	-7.2	-38.6	98.53	-7.2	-40.0
South Korea[5]	(156)	147.65	-3.0	+25.0	154.25	-3.2	+22.9
Philippines	(19)	298.88	-4.7	-12.2	342.92	-7.4	-22.8
Taiwan, China[6]	(90)	146.63	+1.7	+8.5	144.65	+1.4	+7.9
India[7]	(76)	129.14	-0.4	+10.9	143.94	-0.4	+11.7
Indonesia[8]	(38)	101.83	-5.2	-18.3	120.41	-5.2	-15.4
Malaysia	(104)	277.46	-3.8	-18.2	261.82	-4.2	-22.3
Pakistan[9]	(15)	376.48	-3.8	-3.0	523.51	-3.8	-0.9
Sri Lanka[10]	(5)	183.41	-5.4	+3.5	196.03	-5.2	+2.7
Thailand	(55)	389.57	-7.1	-18.4	387.25	-7.0	-19.9
Euro/Mid East	(125)	122.35	-0.6	-27.7			
Greece	(25)	211.48	-0.9	-7.1	344.21	-0.5	-10.5
Hungary[11]	(5)	168.66	-2.3	+1.2	223.02	-2.0	+10.5
Jordan	(13)	155.77	-1.3	-5.9	229.54	-1.1	-4.1
Poland[12]	(12)	457.59	-3.6	-44.1	687.25	-3.2	-37.8
Portugal	(25)	126.77	+0.3	+11.4	138.67	+0.5	+0.4
Turkey[13]	(40)	130.85	-0.5	-38.5	2,249.82	-0.3	+54.7
Zimbabwe[14]	(5)	266.20	+1.8	+31.7	326.52	+2.1	+52.8
Composite	(890)	336.85	-3.1	-5.3			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

It is time to speculate on likely trends in the world's emerging markets next year, and one of the first off the mark in the UK has been Mr Arnab Banerji of London-based investment managers Foreign & Colonial, writes John Pitt.

At a presentation yesterday Mr Banerji said he believed that US yields at the long end would peak during the first half of 1995, leading to a strengthening of the dollar, a fall in the yen and a rise in most emerging markets. Consequently he had already turned positive on those emerging economies linked to the dollar.

Notwithstanding dollar influence, he presented an argument demonstrating that, historically, emerging markets' performance also bore a strong correlation to the strength of OECD economies. With the latter showing all the signs of corporate earnings growth, emerging markets looked likely to follow past experience.

Mr Banerji's bets for 1995: Brazil ("still undervalued"), Egypt ("cult of equity returning"), Russia ("first world technology with third world wages") and Bangladesh ("liberalised economy; same population as Japan").

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY NOVEMBER 29 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY NOVEMBER 28 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	166.79	-0.8	157.72	104.06	135.38	145.17	-1.0	3.96	168.13	159.46	104.76	136.74	146.67	189.15	149.38	150.21
Austria (16)	178.24	0.1	168.54	111.20	144.67	144.72	0.0	1.12	178.06	168.88	110.95	144.81	144.77	198.89	167.46	170.08
Belgium (35)	167.94	-0.2	158.80	104.77	136.31	133.01	-0.3	4.15	168.20	159.53	104.81	136.79	133.36	177.04	152.74	158.39
Brazil (28)	173.97	5.2	164.51	108.53	141.20	272.52	4.8	0.76	165.34	156.81	103.02	134.46	260.06	-	-	-
Canada (103)	127.75	0.6	120.80	79.70	103.69	127.51	0.7	2.69	126.98	120.43	79.12	103.27	126.67	145.31	120.54	130.78
Denmark (33)	244.64	-0.7	231.33	152.62	198.56	203.54	-0.8	1.46	246.29	233.59	153.47	200.30	205.28	275.79	231.15	231.15
Finland (24)	178.84	-1.3	169.11	111.57	145.16	181.30	-1.5	0.77	181.24	171.89	112.93	147.40	184.11	201.41	116.85	117.16
France (102)	167.43	-0.4	158.32	104.45	135.89	140.71	-0.6	3.05	168.07	159.40	104.73	136.69	141.55	186.37	159.34	163.53
Germany (58)	138.47	-0.4	130.94	86.39	112.39	112.39	-0.6	1.85	138.99	131.82	86.61	113.04	113.04	150.40	128.37	130.16
Hong Kong (56)	345.34	-0.2	326.55	215.45	280.30	342.86	-0.2	3.49	346.20	328.35	215.72	281.56	343.68	508.58	341.29	369.21
Ireland (14)	200.57	0.5	189.66	125.13	162.79	183.21	0.3	3.48	199.62	189.32	124.39	162.35	182.66	216.80	174.43	174.43
Italy (59)	74.31	0.5	70.27	46.36	60.32	89.35	0.2	1.76	73.97	70.15	46.09	60.16	89.14	97.78	60.17	61.54
Japan (468)	153.25	0.7	144.92	95.61	124.39	95.61	0.8	0.80	152.17	144.32	94.81	123.75	94.81	170.10	124.54	124.54
Malaysia (97)	495.23	-0.7	468.29	308.96	401.96	487.37	-0.8	1.80	498.53	472.81	310.64	405.44	491.10	621.63	430.71	471.01
Mexico (18)	2124.06	1.7	2008.48	1325.12	1723.98	7984.18	1.4	1.28	2088.42	1980.67	1301.30	1698.42	7873.06	2647.06	1696.28	2089.34
Netherland (19)	210.70	0.3	199.24	131.45	171.02	168.17	0.1	3.44	210.08	199.25	130.90	170.85	167.96	223.30	187.93	187.93
New Zealand (14)	73.07	-0.1	69.10	45.59	59.31	62.20	-0.2	4.70	73.13	69.36	45.57	59.48	62.31	77.59	61.27	61.72
Norway (23)	196.45	0.4	185.77	122.56	159.46	181.41	0.1	1.82	195.71	185.61	121.95	159.16	181.32	211.74	165.52	165.52
Singapore (44)	371.67	-0.1	351.45	231.87	301.67	250.35	-0.3	1.71	372.16	352.96	231.90	302.67	251.06	401.38	294.66	309.59
South Africa (58)	324.25	-0.8	306.61	202.29	263.18	294.11	-1.9	2.19	326.97	310.10	203.74	265.91	299.80	342.00	205.56	217.33
Spain (38)	139.93	-0.8	132.31	87.30	113.57	138.10	-1.1	4.13	141.11	133.83	87.93	114.76	139.59	155.79	128.88	130.86
Sweden (36)	234.47	0.1	221.71	146.28	190.31	260.83	0.1	1.53	234.21	222.13	145.94	190.48	260.65	242.81	175.83	175.83
Switzerland (47)	160.90	0.6	152.16	100.38	130.60	131.74	0.1	1.85	159.98	151.73	99.68	130.11	131.59	176.56	147.30	147.96
Thailand (46)	159.43	1.4	150.76	99.46	129.40	154.91	1.4	2.37	157.15	149.04	97.92	127.80	152.72	-	-	-
United Kingdom (204)	194.93	0.7	184.32	121.61	158.22	184.32	0.4	4.17	193.62	183.63	120.65	157.47	183.63	214.96	181.11	189.05
USA (513)	186.25	0.2	176.11	116.19	151.17	186.25	0.2	2.95	185.86	176.27	115.81	151.16	185.86	198.04	178.95	188.15
Americas (862)	174.24	0.3	164.76	108.70	141.42	144.91	0.3	2.87	173.67	164.71	108.22	141.24	144.45	-	-	-
Europe (708)	168.07	0.2	158.92	104.85	136.41	150.17	-0.1	3.12	167.75	159.09	104.52	136.42	150.27	178.58	157.00	157.00
Nordic (116)	222.13	-0.3	210.05	138.58	180.29	210.63	-0.4	1.40	222.78	211.28	138.81	181.18	211.48	233.91	173.19	173.19
Pacific Basin (793)	161.52	0.5	152.74	100.77	131.10	105.23	0.6	1.17	160.66	152.38	100.11	130.66	104.58	176.88	134.79	134.79
Euro-Pacific (1501)	164.17	0.4	155.24	102.42	133.25	122.83	0.3	2.01	163.54	155.10	101.90	133.00	122.53	175.14	143.86	143.86
North America (616)	182.62	0.2	172.68	113.93	148.22	182.21	0.2	2.93	182.21	172.81	113.54	148.19	181.80	192.73	175.67	184.69
Europe Ex. UK (504)	150.04	-0.1	141.88	93.61	121.78	129.93	-0.3	2.49	150.19	142.44	93.58	122.14	130.35	158.12	136.56	136.88
Pacific Ex. Japan (325)	242.78	-0.4	229.57	151.46	197.06	213.59	-0.5	3.08	243.74	231.17	151.88	198.23	214.65	296.21	232.59	232.75
World Ex. US (1709)	166.06	0.4	157.02	103.60	134.78	126.65	0.3	2.01	165.36	156.83	103.04	134.49	126.23	176.85	145.58	145.58
World Ex. UK (2018)	169.49	0.3	160.27	105.74	137.57	141.05	0.3	2.14	168.97	160.25	105.29	137.42	140.68	178.58	155.96	155.96
World Ex. Japan (1754)	183.42	0.2	173.44	114.43	148.87	174.21	0.1	2.98	183.08	173.62	114.07	148.88	174.09	185.20	176.34	178.34
The World Index (2222)	171.74	0.3	162.39	107.14	139.39	144.95	0.3	2.34	171.14	162.31	106.64	139.18	144.53	180.80	158.85	158.85

Latest prices were unavailable for this edition.

EUROPE

Cement makers mixed on news of fines

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Nov 30 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1336.88	1336.46	1335.94	1335.49	1336.25	1336.65	1339.47	1341.95
FT-SE Eurotrack 200	1394.32	1393.72	1393.31	1392.12	1393.21	1392.61	1394.45	1397.14

	Nov 29	Nov 28	Nov 25	Nov 24	Nov 23
FT-SE Eurotrack 100	1333.87	1335.02	1328.77	1329.95	1313.33
FT-SE Eurotrack 200	1389.44	1387.54	1380.81	1383.40	1370.41

Base 1000 (26/10/90); High/day: 100 - 1341.95; 200 - 1397.17 Low/day: 100 - 1335.49 200 - 1391.98 † Partial

European cement manufacturers put in mixed performances as they awaited details of the fines imposed by the European Commission on 33 companies after a five-year investigation into a cement industry cartel. Details were made public after most markets closed, and subsequently a number of the companies announced their intentions to appeal.

· Mr Martin Murch at Robert Fleming Securities said the fines, which averaged 5 to 6 per cent of the companies' 1992 turnovers, were sharply less than the 10 per cent maximum which could have been imposed, and which some people had feared. Mr Murch believed that shares could bounce higher in coming days in further response.

In Italy, Italcementi, which earned the highest fine, fell L184 to L10,336, but in the opposite direction, Lafarge Coppée, in France, rose FFr16.10 or 4 per cent to FFr413.10 and Ciments Française picked up FFr1 to FFr170. Holderbank, in Switzerland, was marked SFr8 lower late in the day to SFr1,029, while CBR, in Belgium, was BFr75 down at BFr11,950. In Germany, Dyckerhoff fell DM30 to DM650 and Heidelberger rose DM29 to DM1,255.

FRANKFURT moved modestly higher amid low turnover. The Dax ended official hours with a gain of 3.98 at 2,048.26, and then climbed to 2,057.28 in the Ibis session. Turnover was DM5bn. Dealers remarked that the bund future lifted stocks late in the day.

Hoechst finished with a gain of 50 pfennings at DM314.50 in the official session, adding a similar amount in the Ibis after reporting a rise of more than 80 per cent in pre-tax profits to September, above analysts' expectations. Goldman Sachs, which raised its full-year forecast to above DM2bn, noted that there was scope for further outperformance, "helped by the more rapid feed-through of higher earnings and dividends".

Elsewhere in the sector, Bayer was up DM1.60 to DM343.80 and then to DM347.40 in the post, and BASF, down to DM304.20 in normal hours, recovered to DM305.50 later.

Deutsche Babcock lost DM6.50 to DM205.50 and then rose to DM206.7 in the post following losses earlier in the week on weaker-than-expected results.

PARIS found its motivation mainly in technical factors as the November CAC-40 futures contract expired. In the cash market the CAC 40 index put on 36.69 or 2 per cent to 1,976.66, in higher than average turnover of above FFr5bn.

Thomson-CSF, which is thought to be a candidate for an overseas defence contract, gained FFr8.20 or 5.1 per cent, to FFr169.

Accor made FFr12 to FFr587 on reports that it was likely to meet its target of selling some FFr2.5bn of assets by the end of 1995.

Cap Gemini Sogeti rose FFr3.90 to FFr184.80 after announcing that, together with IBM France, it had won a FFr500m contract.

MILAN turned its attention to worries that the day's last-ditch talks between the government and unions on budget reform and the budget plan would fail to prevent tomorrow's planned general strike and the Comit index eased 1.24 to 625.72.

Olivetti gained L48 to L1,927 after the cabinet gave the green light to the mobile phone contract awarded to its Omnitel consortium.

Credito Romagnolo, which resumed trading after a two day suspension, picked up L568 or 3.3 per cent to L17,664 on expectations that Credito Italiano would make an improved bid. Italiano picked up L29 to L17,664 after recent losses, amid doubts by some analysts that it would necessarily succeed in winning over the Bologna-based bank this time round.

ZURICH put in a firm performance in low volumes, the SMI index finishing 10.2 higher at 2,594.9, supported by rising bond futures.

Nestlé took its lead from the firmer dollar, rising SFr17 to SFr1,232 while a SFr6.50 slide in SMH to SFr141.50 was attributed to a Goldman Sachs downgrade.

AMSTERDAM was supported overall by the dollar. The AEX index ended with a gain of 2.66 to 409.49.

Nedlloyd put on Fl 1.80 to Fl 53.00 after reporting slightly firmer third quarter net profits, and saying that it expected full year figures of around Fl 90m.

Unilever added Fl 1.30 to Fl 172.80, with Royal Dutch Petroleum up Fl 1.90 at Fl 190.70, and Philips 80 cents firmer at Fl 53.20.

Written and edited by John Pitt and Michael Morgan

ASIA PACIFIC

Renewed buying helps Nikkei over 19,000

Tokyo

Active buying by public funds and investment trusts boosted share prices and the Nikkei 225 average recovered the 19,000 level for the first time in six trading days, *writes Emiko Terazono in Tokyo.*

The index added 149.13 at 19,075.62, rising above 19,000 for the first time since November 21, and having moved between 18,943.79 and 19,134.03. Equities moved higher on purchases by public postal and insurance funds, which absorbed arbitrage selling and profit-taking by overseas investors in the afternoon.

Volume was 300m shares, against 168m, with public funds buying some 20m shares. The Topix index of all first section stocks advanced 17.59 to 1,520.41, while the Nikkei 300 rose 3.44 to 280.08. Gains outscored declines by 802 to 232, with 138 issues unchanged. In London the ISE/Nikkei 50 index put on 4.26 at 1,255.50.

Short-covering by overseas investors boosted banking shares. Some traders said the buybacks could signal an end to the Nikkei's declines since selling of bank shares ahead of the sector's interim results announcements last week had prompted the downturn of the index. Dai-ichi Kangyo Bank rose Y70 to Y1,760 and Bank of Tokyo Y30 to Y1,480.

Brokerage issues, recently depressed on fears of weak earnings due to the stock market decline, were also bought back. Daiwa Securities firmed Y30 to Y1,290 and Yamaichi Securities Y19 to Y726.

High-technology stocks, which reported firm interim earnings owing to increased demand, gained on active buying. Toshiba, up Y1 at Y692, was the day's second most active issue, followed by Hitachi, Y22 higher at Y977.

Steels and shipbuilders were also heavily traded. Nippon Steel, the busiest stock of the day, added Y5 at Y384 and Mitsubishi Heavy Industries gained Y5 at Y734.

Privatisation stocks lost ground on profit-taking. Japan Tobacco fell Y1,000 to Y963,000 and Nippon Telegraph and Telephone Y5,000 to Y840,000.

Petroleum shares declined on the government's continuing push to deregulate the sector: Showa Shell Sekiyu dipped Y50 to Y1,180.

In Osaka, the OSE average rose 280.11 to 21,178.34 in volume of 14.7m shares. Ono Pharmaceutical rose Y190 to Y4,720.

Roundup

The region was mixed, with the outlook for US interest rates again proving an inhibition. Manila was closed for a public holiday.

HONG KONG fell 2.2 per cent amid renewed worries about higher US interest rates, and with index futures falling sharply. The Hang Seng index lost 192.00 at 8,466.26, off a day's low of 8,428.57, in turnover that grew to HK$3.9bn from Tuesday's HK$3.2bn.

New stocks replacing two Jardine companies and a pair of textile groups in the index failed to find support.

Guangdong Investment fell 10 cents to HK$4.40, Amoy Properties declined 15 cents to HK$7.70, Oriental Press retreated 20 cents to HK$4 and Johnson Electric slipped 50 cents to HK$19.80.

SEOUL saw profit-taking and institutional selling in the afternoon which more than wiped out strong early gains. The composite index ended 6.85 lower at 1,074.41, after hitting a high for the day of 1,092.03, in volume that picked up to 38.2m shares from Tuesday's 31.2m.

TAIPEI fell in slow trade due to caution ahead of Saturday's elections. The weighted index shed 24.38 to 6,363.72 in turnover of T$26.85bn.

Food shares, after gains in recent sessions, encountered profit-taking, with President Enterprises down T$1 to T$56.

SYDNEY was little changed overall after recovering from early losses on worries about interest rates following news of higher than expected third-quarter GDP data. The All Ordinaries index, after a day's low of 1,881.4, lost just 0.6 on balance at 1,890.7 in turnover of A$479m.

WELLINGTON was hit hard by a rise in local interest rates, the NZSE-40 capital index receding 13.68 to 1,990.97.

Salmond Smith Biolab suffered another fall, closing at NZ$2.20, down 25 cents, prompting a stock exchange enquiry. The company said it expected to appoint a new chief executive today and would be examining annual forecasts.

SINGAPORE was firmer, although the mood was hesitant in response to the uncertain trend of Wall Street. The Straits Times Industrial index put on 9.29 at 2,242.09.

QAF rose 13 cents to S$1.66 amid speculation that Indonesia's Salim Group might be about to increase the 8 per cent stake it recently acquired.

KUALA LUMPUR was driven higher by a spate of late foreign buying, the composite index adding 9.44 at 1,013.13.

BANGKOK gained ground, spurred in the last few minutes of trade by a jump staged by the finance and building materials sectors. The SET index closed 9.10 ahead at 1,362.44 in Bt3.99bn turnover, while the finance group climbed 1.3 per cent on Bt541m volume.

BOMBAY was lower, with mutual funds absent as buyers, and state elections, the results of which are not due until December 10, making for a cautious mood. The BSE-30 index fell 25.68 to 4,124.18.

Barclays de Zoete Wedd, however, believed that India could be among Asia's top performing stock markets next year, in spite of expectations of a poor election outcome for the ruling Congress party in the southern states of Andhra Pradesh and Karnataka.

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